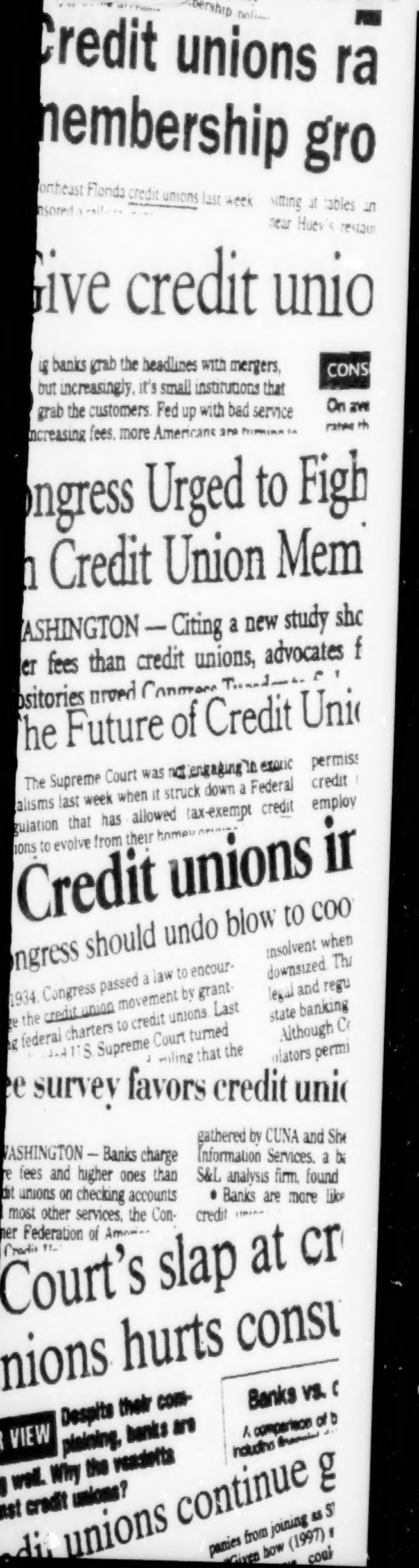
National Credit Union Administration
1997 Annual Report



The Year Behind the Headlines

Contents

The National Credit Union Administration is an independent federal agency that supervises and insures federal credit unions and insures many state-chartered credit unions. It is entirely funded by credit unions and receives no tax dollars.

This 1997 NCUA Annual Report is NCUA's official report to the President and Congress of the United States. This report includes the financial statements of the NCUA Operating Fund, the National Credit Union Share Insurance Fund, and the Central Liquidity Facility.

National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Financial Highlights 1997

NCUA Operating Fund

Operating fee revenue	$44.7 million
Other income	1.6 million
Total revenue	46.3 million
Expense budget	99.9 million
Actual expenses	97.2 million
Expenses transferred to Share Insurance Fund	48.6 million
Operating Fund expenses	48.6 million
Net income	-2.3 million
Operating Fund balance	6.1 million

National Credit Union Share Insurance Fund

Total revenue	$ 204.1 million
Operating expenses	49.8 million
Insurance loss expense	0.0 million
Net income	154.3 million
Reserve for losses	80.8 million
Fund balance	3.6 billion
Equity ratio (fund balance as percentage of insured deposits)	1.30 percent

Central Liquidity Facility

Net income	$ 41.5 million
Dividends paid	41.5 million
Total assets	773.1 million
Retained earnings	11.5 million
Capital stock	735.7 million

Federally Insured Credit Unions

Number of credit unions	11,238
Total assets	$351.2 billion
Total insured shares	293.3 billion
Total loans	232.2 billion
Capital to assets	11.7 percent
Share growth	7.1 percent
Ratio of loans to shares	75.6 percent
Delinquency ratio	1.0 percent
Net income growth (before reserve transfers)	-0.6 percent

Dedication

The 1997 National Credit Union Administration Annual Report is dedicated to the examiners, supply clerks, analysts, office directors, program officers, attorneys, specialists and many others, all the 950 people at NCUA who work hard to ensure that credit unions are a safe place for Americans to save for a secure future and borrow at reasonable rates.

This is a photograph of NCUA's 1997 Award Winners, people recognized for their dedication and hard work. They represent the spirit of NCUA's entire staff.

Franklin Delano Roosevelt said that government is here to ensure that citizens get a square deal, that people's rights are supported and protected.

Board Statements

Credit Unions Serve Social Purpose

NCUA and credit unions faced several external and internal challenges during 1997, but the overall health of both the agency and the system has not faltered. Capital levels in credit unions are at their highest. Failures are dropping at a record pace and the National Credit Union Share Insurance Fund has never been healthier.

I was particularly pleased in December when the Department of the Treasury reported to Congress a thorough assessment of the status of credit union health and supervision that acknowledges this solid picture of sustained health. And to the surprise of many within the industry, the Treasury praised our restructuring of the corporate supervision program, credited our leadership in that regard, and called for no major changes in NCUA's regulations or insurance program.

Yet, 1997 will be most remembered for the agency's first appearance before the U.S. Supreme Court in order to defend an 1982 NCUA field of membership (FOM) and expansion policy that is most responsible for the dramatic increase in the safety and soundness of credit unions over the past 15 years. This policy has also promoted inclusion by opening the door to fairly priced credit union financial services to millions of low- and moderate-income Americans who may not have had a reasonable alternative.

It is my hope and belief that Congress will quickly step in and reverse the damage the Supreme Court's negative decision is expected to create for credit unions. President Truman once said the common goal of credit unions is "to solve by joint action problems which cannot be solved by acting alone."

Truman agreed with the founders that credit unions were organized on "the principles of self-help, mutual assistance, and democratic control." *(emphasis added)*.

Norman E. D'Amours
Chairman

Those principles remain the defining philosophy of credit unionism more than 40 years later. As the United States has experienced growth and prosperity, so have credit unions and their member-owners. The purpose of the early credit unions was to help their members move into what we today call the middle-class, and they were enormously successful. But their work is not done. Millions of Americans still need the access to self empowerment that only credit unions will provide them in order to participate in our nation's financial mainstream.

Alphonse Desjardin, the father of the North American credit union movement, warned credit unions against "doing only dry business." The 1934 *Federal Credit Union Act* gave credit unions a social responsibility and charged NCUA with enforcing it. I take that charge very seriously.

Success and Challenges

This annual report provides an engaging look at the credit union system during 1997, a year marked by health, growth and stability. Assets increased, shares expanded and loans grew at the nation's credit unions. The National Credit Union Share Insurance Fund continued on a path of record growth, resulting in the largest dividend ever paid to credit unions in 1997.

The year 1997 was also full of challenges and successes that captured the headlines and our attention. AT&T, OPM, and Y2K proved to be much more than simple acronyms. They were among the most talked about issues that faced the NCUA and the credit union industry. Rest assured that the NCUA will continue its efforts of the last year to protect access to credit union membership, to preserve the integrity of the Agency through proper and appropriate policies and practices and to prepare to enter the new millennium without a glitch.

Despite the obvious challenges, credit union membership continued to grow last year, giving more hard working Americans the opportunity to benefit from the high quality, affordable financial services for which credit unions are recognized. Consumer surveys again placed credit unions at the top of all financial institutions in customer satisfaction. The industry continued to attract members through a commitment to personal attention and the ability to expand and improve products and services.

Looking ahead, the Year 2000 issue will continue to dominate much of the Agency's resources and our focus in 1998 and into 1999. Throughout the past year, examiners and other key staff members completed extensive training to steer credit unions toward Y2K compliance.

Yolanda Townsend Wheat
Board Member

NCUA staff worked to develop guidelines and instructions which helped set a course for credit unions to follow.

By the end of this year, credit unions will be asked to demonstrate that their critical systems are Y2K compliant. It is imperative that the Agency and industry work cooperatively and thoughtfully throughout this process as we have during the past year. The Y2K challenge provides the Agency an opportunity to display the same spirit of cooperation that has become symbolic of the credit union movement.

As we reflect on the achievements of 1997, let us also look to 1998 as a year when regulators can unite with credit unions toward accomplishing this most important goal. The continued strength and stability of the credit union system depends on it.

A Regulated and Regulator Perspective

Dennis Dollar
Board Member

Having spent most of 1997 as a credit union manager before joining the NCUA Board in October, I have the unique opportunity of looking at the year's events from the perspective of both the regulator and the regulated. There is no question that 1997 was a challenging year for NCUA, as well as the credit union industry. Throughout the year, many high-profile issues made headlines; however, it should be emphasized that the year's news for both NCUA and credit unions was overwhelmingly positive.

The year 1997 saw continued growth throughout the credit union movement, with membership totaling over 70 million by year's end. Federally insured credit unions reported increased growth in assets, shares, and loans, reflecting a strong and viable industry. The Share Insurance Fund posted record income in 1997 and returned its third consecutive and largest dividend in history. Last year, every federally chartered credit union was again examined by NCUA, reinforcing our commitment to the safety and soundness of America's credit unions. The Treasury study reflected a positive endorsement of both the strength and stability of our nation's credit unions as well as NCUA's efforts to maintain that safety and soundness. These are solid records of accomplishment and success that we can all be proud of.

Much attention and concern has been devoted to the AT&T case challenging NCUA's field of membership policy. This issue continues to captivate interest within NCUA, Congress, and, most significantly, among the millions of credit union members and potential members whose right to choose their own financial institution is at stake. This issue will require regulatory attention by NCUA now that the court has rendered its decision.

Year 2000 compliance issues were likewise a priority within NCUA and the industry in 1997 and will continue to be an area of focus in 1998. Also, the Office of Personnel Management's mid-1997 report was a matter of much concern and corrective measures associated with NCUA's hiring procedures continue to be a high priority in the coming year.

Many issues were addressed in 1997 that better prepare us to deal with what lies ahead in 1998. As the agency charged with the overall responsibility for the safety and soundness of credit unions, NCUA enters 1998 committed to providing a regulatory environment that both promotes safe, sound and growing credit unions and enhances their ability to serve the over 70 million credit union member-owners across the nation who depend upon them.

Administration

Tawana Y. James
Deputy Executive Director

Overview from the Office of the Executive Director

1997 was successful on many fronts for NCUA and credit unions. The high-profile field of membership lawsuit brought vocal support from concerned credit union members, the Supreme Court agreed to hear our case, and 130 members of Congress pledged to support our position.

Behind the headlines, NCUA and credit unions experienced a healthy financial year. The Share Insurance Fund posted record earnings and paid its fourth dividend, the Operating Fund reduced its fee assessment, and NCUA put strategic goals in place ensuring the agency moves into and beyond the year 2000 equipped to serve the credit union community.

1997 had its challenges. An Office of Personnel Management review found hiring discrepancies being used in NCUA's efforts to diversify our workforce. Cooperating fully, the Board judiciously worked to end illegal hiring practices and to prevent any recurrence.

Among last year's highlights were positive reports by the General Accounting Office (GAO) and the Treasury Department. In April, the GAO reported that NCUA acted properly in liquidating CapCorp and in sponsoring the Serving the Underserved Conference. In December, the Treasury Department reported that credit unions and NCUA were in good condition and suggested no major changes.

To ensure NCUA and credit union computers are ready for Year 2000 (Y2K), NCUA acted in 1997 to:

- Modernize agency infrastructure;
- Propose a budget increase to supervise Y2K initiatives;
- Contract Coopers & Lybrand to educate examiners, assess vendors, and develop a self-test for credit unions;
- Implement a data collection system to identify potential problems; and
- Improve awareness of Y2K issues within the industry through publications, speeches, and during exams.

With an eye to the future, NCUA began a dialogue with the public, Congress and other government agencies to outline our strategic goals into the next millennium. To help accomplish its mission to foster safe, sound credit unions and encourage service to credit union members, NCUA adopted the following goals:

- Promote a system of financially sound, well managed federally chartered credit unions.
- Protect member savings in federally insured credit unions, thus preserving federal taxpayer funds.
- Meet credit unions' liquidity needs through the Central Liquidity Facility and a financially sound, well-managed corporate credit union system.
- Promote the availability of credit union services to American consumers, in particular to people of small means.
- Ensure compliance with consumer regulations.

With these strategic goals, we believe that NCUA, the Share Insurance Fund and credit unions are equipped to provide financial services well into the next century.

Supervision

Paving the Way to the Next Millennium

Most of the activity in the Office of Examination and Insurance in 1997 centered around three major issues — the AT&T Family Federal Credit Union case, the Treasury study, and Year 2000.

The early part of 1997 focused on developing procedures for handling conversions from multiple-group charters to community charters, processing those applications, and preparing for the Supreme Court case.

Since the US Court of Appeals ruled in the AT&T case in mid-1996 that occupation- based federal credit unions must have a single common bond, 47 federal credit unions have been approved for conversion to community charters and another 69 gained approval to convert from federal to state-chartered credit unions or to mutual savings banks. Interestingly, seven state credit unions converted to federal charters during the same time frame. Of course, many federal credit unions, awaiting the Supreme Court's decision, have been expanding efforts to enlist new members from their potential memberships.

Throughout the year, E&I staff met with participants conducting the Treasury study providing information on the credit union industry and the National Credit Union Administration's approach to fulfilling our regulatory and insurance oversight responsibilities. We stressed the need for a flexible approach to regulation and supervision to appropriately respond to each credit union's specific situation.

On the compelling Year 2000 issue, NCUA and the credit union industry have been devoting considerable energy and resources to ensure the credit union system survives into the new millennium. NCUA contracted with the consulting firm of Coopers & Lybrand, LLP, to provide in-depth training to approximately 170 federal and state credit union examiners. The firm, with NCUA's help, also developed a supplement to the *Examiner's Guide* and a *Credit Union Year 2000 Self-Analysis Guide*. Starting in December 1997, Coopers & Lybrand, assisted by NCUA staff, began onsite reviews at ten of the largest credit union information systems vendors.

No less important, Examination and Insurance spearheaded a number of projects in 1997 —

- Drafted a new investment rule;
- Revamped the *Supervisory Committee Guide for Federal Credit Unions;*
- Updated the *Examiner's Guide;*
- Updated the Agency's special assistance policy statement;
- Drafted proposed rules for member business loans and credit union service organizations;
- Monitored new developments in cyber services;
- Redesigned and refined the *NCUA Call Report* to make it easier for small and medium sized credit unions to complete; and
- Provided considerable staff assistance in satisfying the requirements of the *Government Performance and Results Act.*

General Counsel

AT&T Reaches the Supreme Court

The most significant litigation in 1997 was the AT&T case. In February, the Supreme Court agreed to consider two important questions regarding field of membership for federal credit unions: whether banks have legal standing to challenge NCUA's interpretation of the common bond provision contained in the Federal Credit Union Act and, if they do, whether NCUA's interpretation allowing multiple occupational groups within a single credit union is reasonable.

During the spring and summer, NCUA attorneys worked closely with attorneys from the Department of Justice and the Office of the Solicitor General researching and drafting briefs filed in the Supreme Court. Oral argument was held on October 6, 1997. At year end, NCUA awaited a decision on this extremely important case.

NCUA was also a party in eight other FOM lawsuits during the year. Most of these cases were stayed awaiting the Supreme Court's decision in the AT&T case. The newest of these cases, filed October 6, 1997, expands the field of membership battleground to community charters and, for the first time, challenges NCUA's "once a member, always a member" policy.

Capital Corporate Case Closed

In 1997, NCUA closed its comprehensive investigation of claims on behalf of Capital Corporate Federal Credit Union, which liquidated in 1995. The investigation culminated in a settlement with 22 former officers and directors of CapCorp and in the filing of a lawsuit against the principal seller of CMOs to CapCorp.

In 1996, ninety-six former Preferred Capital Shareholders of CapCorp challenged NCUA's 1995 conservatorship and liquidation of the credit union. The lawsuit was dismissed for lack of jurisdiction in 1997. The dismissal was upheld on January 7, 1998, by the U.S. Court of Appeals for the Fourth Circuit.

Enforcement Actions Total 52

Enforcement actions continue to be rare among credit unions, primarily due to their general safe and sound operation and NCUA's enhanced supervision and examination program.

In 1997, NCUA enforcement actions increased slightly—from 47 in 1996 to 52 in 1997. NCUA assessed six civil money penalties, issued eight cease and desist orders, and removed or prohibited 38 institution-affiliated parties. In addition, six credit unions were placed into conservatorship, compared to two in 1996.

Low-Income Credit Unions

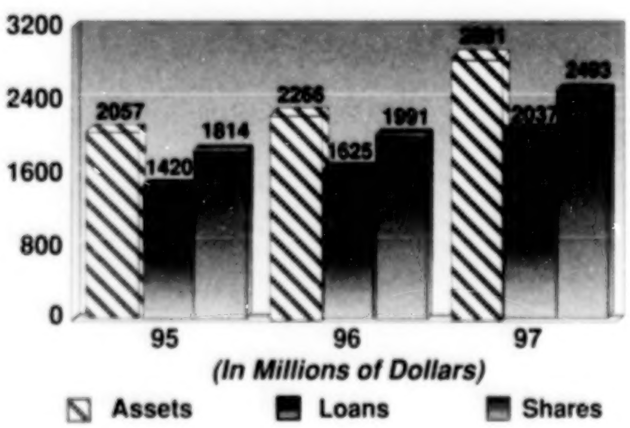
Quarter of a Million New Members

NCUA continues to encourage the chartering and growth of low-income credit unions through its Office of Community Development Credit Unions (OCDCU). During 1997, an additional quarter of a million Americans gained access to financial services and now have the opportunity to participate as member-owners of their financial institutions.

There were 398 low-income designated credit unions at the close of 1997. The number of low-income credit unions increased by 52, or 15 percent during the year.

Low-income designated credit unions have assets of $2.9 billion; loans of $2 billion, and shares of $2.5 billion. Low-income credit unions report average capital of 12 percent; and loan delinquency and charge-off ratios of 2.4 percent and 0.8 percent respectively.

Low-Income Credit Unions



New Initiatives

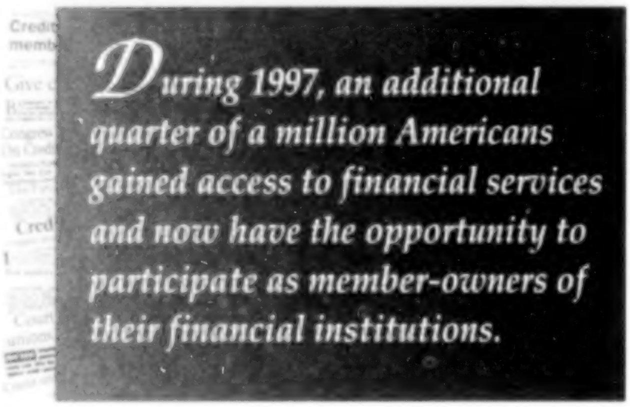
A basic "Credit Union Management" curriculum is being developed by the OCDCU and should be available for community colleges, credit union leagues, and local civic organizations by the 1998 fall semester. Created to address the need for low-cost, quality, skill training, the curriculum will provide continuing education about various aspects of credit union operation and management.

Through networking efforts, OCDCU negotiated a reduced rate health benefit insurance program with CUNA Mutual Insurance for the managers of designated low-income and small credit unions. Available health insurance coverage should help small credit unions attract and retain skilled managers.

The initial formation of a National Small Credit Union Development Program (NSCUDP) is complete. The NCUA Board established a task force to refine the research and development of the NSCUDP. The task force will hold its first meeting in January 1998 and report its recommendations to the NCUA Board by late Spring 1998.

Revolving Loan Program Funds Increase

The Community Development Revolving Loan Program (CDRLP), administered by the OCDCU, received an additional $1 million in funding from Congress in fiscal year 1997. The revolving loan fund program provides designated low-income credit unions with a source for low-cost loans and technical assistance. The Revolving Loan Program's assets totaled $8.8 million at year end.



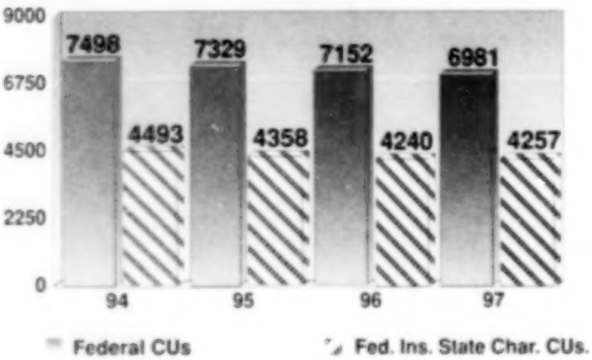
The loan program granted 12 loans during 1997 for $2.3 million and ended the year with 71 loans outstanding to 60 credit unions totaling $6.8 million. The technical assistance program received 95 requests for technical assistance of $679,000 during 1997. The technical assistance program was able to provide 87 grants totaling $238,000.

Community Development Revolving Loan Program Statistics

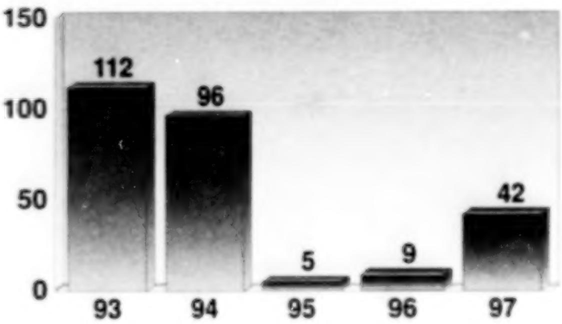
	Number	Dollar Amount	Number of Credit Unions
Loan Fund			
Outstanding Loans	71	$6.8 million	60
Loans Granted Since 1987	124	$16.4 million	89
Loans Granted in 1997	12	$2.3 million	10
Loan Applications Pending	5	$750,000	5
Technical Assistance Fund			
Granted Since 1992	299	$696,000	N/A
Requests Received 1997	95	$679,000	81
Grants Disbursed in 1997	87	$238,000	60
Grants Balance Committed	26	$86,000	26

Credit Union Activity

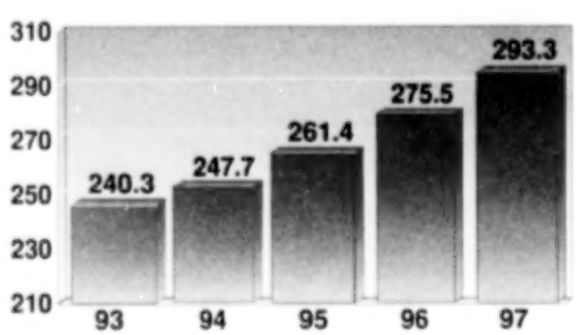
Number of Federally Insured CUs
December 31



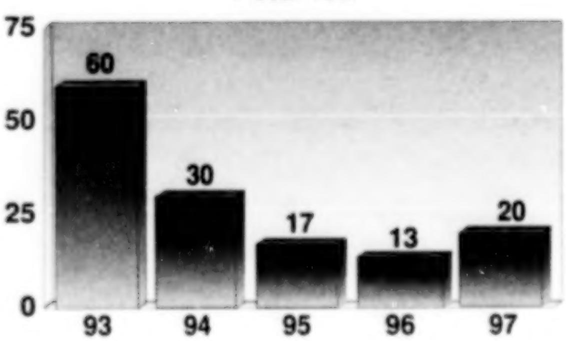
Net Conversions to Federal Insurance
Fiscal Year



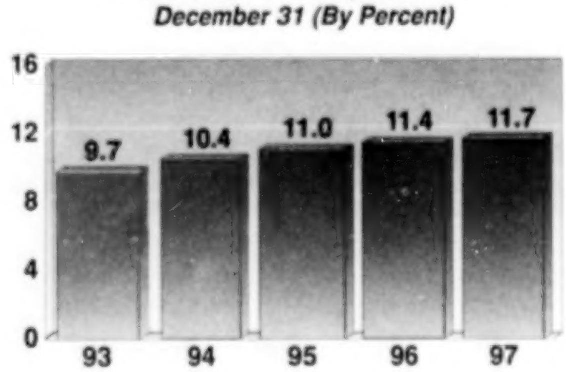
Total Insured Shares
December 31 (in Billions of Dollars)



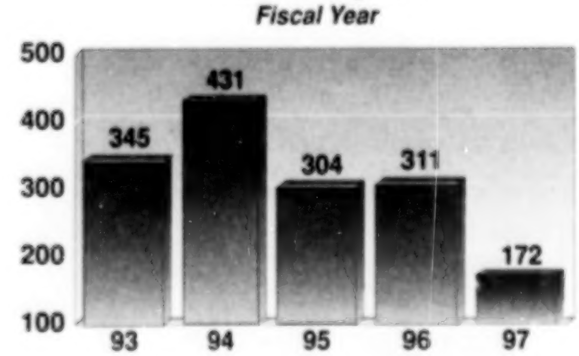
Total Liquidations
Fiscal Year



Credit Union Capital Ratio
December 31 (By Percent)



Total Mergers
Fiscal Year



Insured Credit Union Activity

INSURED SHARE GROWTH IN FEDERALLY INSURED CREDIT UNIONS (IN MILLIONS)

	SHARES OUTSTANDING			
DECEMBER 31	FEDERAL CREDIT UNIONS	STATE CREDIT UNIONS	TOTAL	PERCENTAGE CHANGE FROM PRIOR YEAR TOTAL SHARES
1988	$104,431	$55,217	$159,648	9.1%
1989	109,653	57,518	167,171	4.7
1990	117,881	62,082	179,963	7.7
1991	127,316	72,467	199,783	11.0
1992	142,139	87,386	229,525	14.9
1993	149,229	91,101	240,330	4.7
1994	155,480	92,173	247,653	3.0
1995	164,582	96,856	261,438	5.6
1996	173,544	101,914	275,458	5.3%
1997	178,948	114,327	293,275	6.7%

CHANGES IN FEDERALLY INSURED CREDIT UNIONS
FISCAL YEAR 1997 (Including transition quarter)

	FEDERAL CREDIT UNIONS	FEDERALLY INSURED STATE CREDIT UNIONS	TOTAL
Number January 1, 1997	7,152	4,240	11,392
Additions:			
New federal charters	10		10
New state charters		5	5
Conversions	7 (FISCU to FCU 6) (NFICU to FCU 1)	109 (FCU to FISCU 65) (NFICU to FISCU 44)	116
1996 charters, completed in 1997	4		4
Subtractions:			
Mergers:			
Assisted	(7)	(1)	(8)
Voluntary	(91)	(73)	(164)
Mergers in process	(10)	(10)	(20)
Liquidations:			
Voluntary	(9)	(3)	(12)
Involuntary	(6)	(2)	(8)
Liquidations in process	(1)	(1)	(2)
Conversions	(68) (FCU to FISCU 65) (FCU to NFICU 3)	(6) (FISCU to FCU 6) (FISCU to NFICU 0)	(74)
Conversions in process		(1) (FISCU to NFICU 1)	(1)
Number, December 31, 1997	6,981	4,257	11,238
Net Change	(171)	17	(154)

FCU = Federal Credit Union
FISCU = Federally Insured State-Chartered Credit Union
NFICU = Privately Insured State-Chartered Credit Union

Record Breaking Year

NCUSIF, Another Record Breaking Year

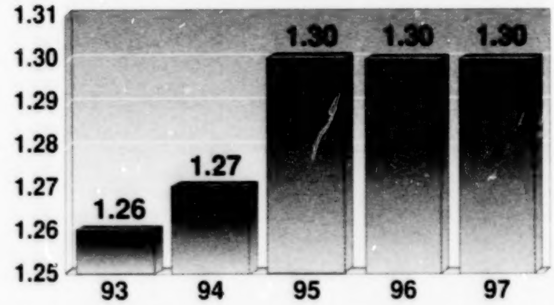
The National Credit Union Share Insurance Fund (NCUSIF) once again broke success records. In 1997, matching the primarily strong economy and the good health of credit unions, the financially sound NCUSIF —

- Paid its third consecutive and largest, $108 million, cash dividend.
- Posted record earnings — $204 million before expenses.
- Ended 1997 at the maximum statutory equity level of 1.3 percent.
- Received Treasury's support for its structure and operations.

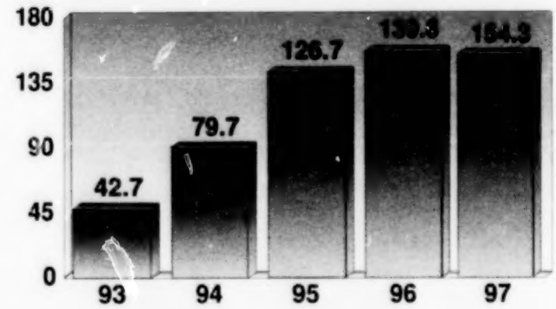
Treasury Supports NCUSIF Administration and Accounting Procedures

From the long-awaited Treasury study, Congress learned the NCUSIF is in good condition and Treasury "found no compelling case for moving the Share Insurance Fund out of NCUA." Plus, despite critics' arguments that NCUA's accounting treatment of credit unions 1 percent deposit in the NCUSIF is faulty, Treasury's careful scrutiny concluded "we do not recommend changing the accounting treatment of the 1 percent deposit." Credit unions understand and "embrace it as a reflection of their cooperative spirit ... expensing the deposit

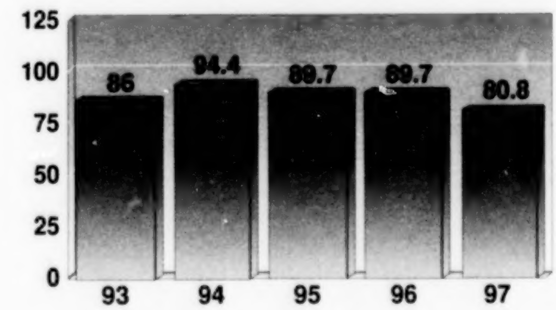
Equity Ratio
By Percent



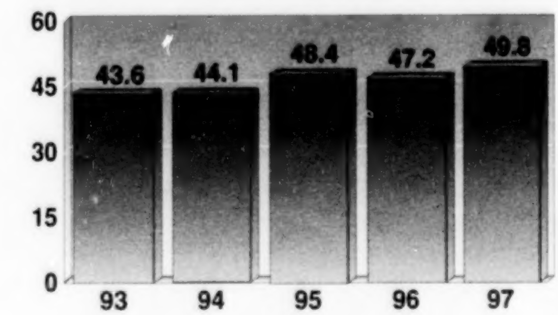
Net Income
In Millions of Dollars



Reserves
In Millions of Dollars



Administrative Expenses
In Millions of Dollars



would add nothing to the Share Insurance Fund's reserves."

The Treasury report did recommend that credit union reserve thresholds be strengthened from 6 to 7 percent, which should pose few problems with the net capital or reserve level in federally-insured credit unions now topping 11 percent.

Treasury also recommends that Congress increase the NCUSIF reserve ceiling from 1.3 to 1.5 percent and permit the Fund to assess insurance premiums as warranted rather than at the current fixed rate of 1/12 of 1 percent.

Net Income Reaches All-time High

During 1997, most earnings were derived from the NCUSIF $3.6 billion investment portfolio, which is entirely comprised of US Treasury securities with maturities of four years or less. While operating costs of $50 million were $2.5 million greater than in 1996, net income hit a historic high $154 million. The Fund's reserves for insurance losses remained at an adequate level and did not require any funding in 1997.

In accordance with generally accepted accounting principles, insurance losses are incurred when loss reserves are established for those institutions NCUA management considers to be of greatest risk to the NCUSIF. Most of these credit unions are classified as CAMEL code 4 or 5 institutions. Money spent

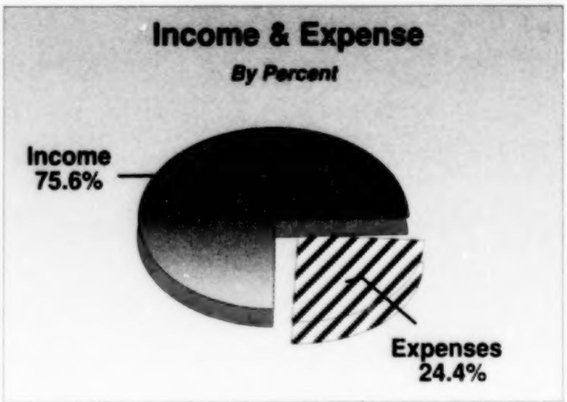
ADMINISTRATIVE COSTS
(IN THOUSANDS)

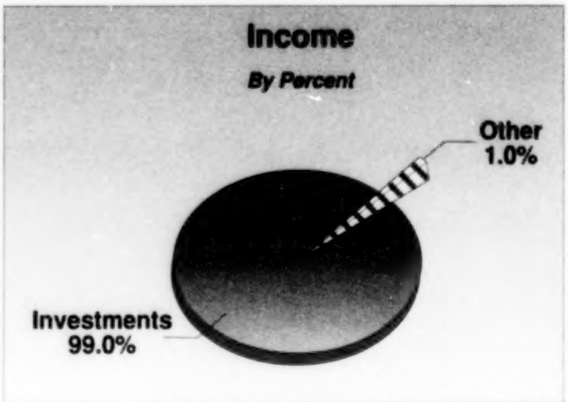
FISCAL YEAR	1994	1995	1996	1997
Direct expenses	$ 1,242	$4,229	$1,136	$1,160
Allocated expenses	42,890	44,155	46,085	48,607
Total administrative expenses	$44,132	$48,384	$47,221	$49,767
Percent of NCUA total administrative expenses	51.4%	52.3%	51.2%	51.2%

RESERVES FOR ESTIMATED LOSSES
(IN THOUSANDS)

FISCAL YEAR	1994	1995*	1996	1997
Reserves—beginning of fiscal year	$ 85,980	$94,407	$89,672	$89,667
Net charges for fiscal year	(17,573)	(4,735)	(5)	(8,892)
Provision for insurance losses	26,000	0	0	0
Reserves—end of fiscal year	$ 94,407	$89,672	$89,667	$80,775

* Includes transistion quarter of Oct. 1 - Dec. 31.





on failed institutions is not considered an insurance loss. Rather, the money is recorded as charges to reserves.

Record Low Credit Union Failures

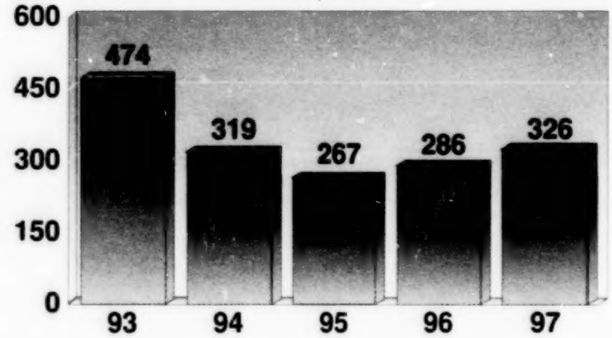
A record low 16 credit unions failed during 1997, resulting in reserve charges of $11 million. The number of problem-coded credit unions at year end reflects little-change from the beginning of the year. Insured shares in these credit unions remain at less than one percent of total insured shares. Total federally insured shares grew at a modest rate of 6.5 percent to $293.3 billion during the year.

Deloitte & Touche Opinions

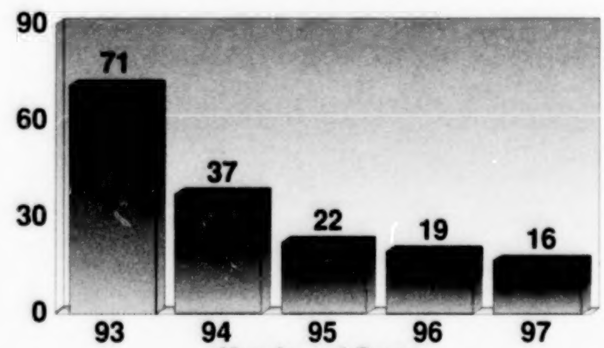
The NCUSIF received its 13th consecutive unqualified audit opinion on its December 31, 1997, financial statements from independent auditors, Deloitte & Touche LLP. The audited financial statements and accompanying footnotes from the independent auditors appear later in this report. The NCUSIF continues to be the only federal deposit insurance fund that has its financial statements audited annually by an independent accounting firm.

Number of Problem Credit Unions

Camel Codes 4 & 5

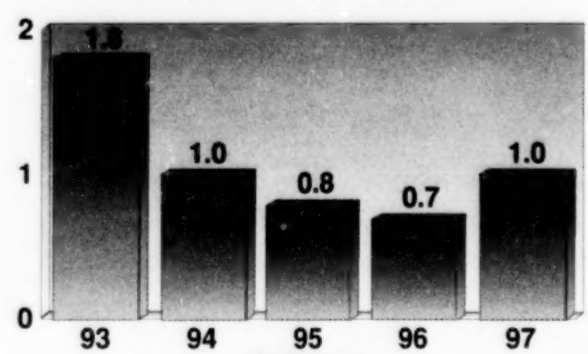


Involuntary Liquidations & Assisted Mergers



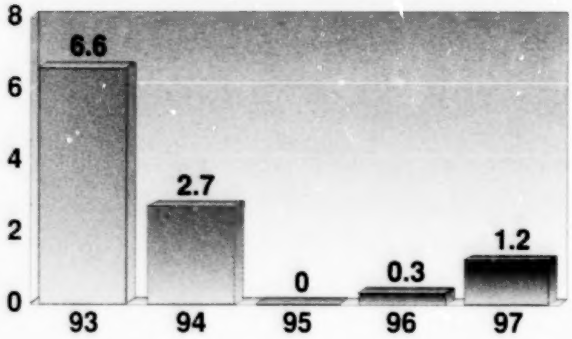
Number of Cases

Percentage of Problem Shares to Total Insured Shares

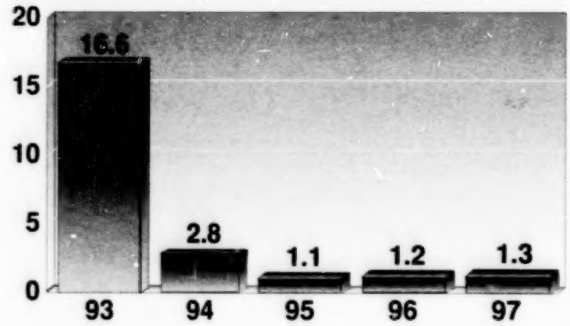


By Percent

Cash Assistance Outstanding
In Millions of Dollars



Non-Cash Assistance Outstanding
In Millions of Dollars



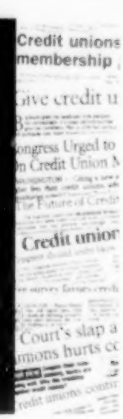
PERCENTAGE OF SHARES BY CAMEL CATEGORY

CATEGORY	1994	1995	1996	1997
Code 1 & 2	89.6%	90.1%	92.9%	92.7%
Code 3	14.4	9.2	6.7	6.3
Code 4	1.7	0.9	.4	1.0
Code 5	0.0	0.0	0.0	0.0
Totals	**100.0%**	**100.0%**	**100%**	**100%**

SUMMARY OF CAMEL CODE 4 & 5 CREDIT UNIONS

Fiscal Year	1994	1995	1996	1997
Number of Code 4 & 5 credit unions	319	267	286	326
Percentage of insured credit unions	2.6%	2.3%	2.5%	2.9%
Shares in Code 4 & 5 credit unions	$2.4b	$2.1b	$1.8b	$2.93
Percentage of NCUSIF natural person insured shares	.96%	.80%	.65%	.95%

The Treasury study supported NCUSIF's sound operation and recommended the current accounting treatment of credit unions' 1 percent deposit remain intact.



Corporate Credit Unions

Addressing Risk and Supervision

During 1997, the Office of Corporate Credit Unions (OCCU) focused on addressing risk and maximizing supervisory efforts. An examination or insurance review was conducted in every corporate credit union. On-site supervision was emphasized during the year and examiners were on-site monthly in the largest corporates.

Early in 1997, a revised Part 704 corporate credit union regulation was adopted by the NCUA Board. Culminating cooperative efforts between NCUA and the credit union community, the revised regulation gives corporates the ability to provide the level of operation and service desired by members while instituting significant safeguards to limit risk exposure.

Corporate credit unions, with the appropriate infrastructure and qualified staff, now have the ability to apply to NCUA for expanded authorities. Expanded authorities offer each corporate the opportunity to forge the operations best suited to its members' needs rather than requiring that all corporates fit the same mold. Many corporate credit unions submitted expanded authority requests to the NCUA Board during the year. OCCU is committed to assisting each corporate operate at the level they select by the May 1, 1998, regulatory compliance date.

Significant changes were made to the NCUA 5310 Corporate Credit Union Call Report that will be implemented with the January 1998 data collection cycle. The revisions provide for more detailed information to monitor the requirements of the new regulation. In 1998, OCCU will be working with the Office of Technology and Information Systems to make the 5310 data available on the NCUA web site.

OCCU drafted a new *Corporate Examiner's Guide* during 1997. Much has changed in corporate credit unions and in OCCU's supervision of the industry since the last major change in 1995. The draft includes examination procedures that concentrate closely on identification and assessment of risk. A final guide will be issued in mid-1998.

Congruent to the draft procedures concentrating on risk, OCCU developed a proposed unique risk rating system for corporates. The rating system is still under review and will be tested with the existing rating system during examinations in early 1998. The goal is to clearly identify the primary areas of concern while placing less weight on extraneous issues.

At the end of 1997, the long awaited Department of Treasury's report complimented the condition of corporate credit unions and OCCU's supervisory efforts. Most of the report's recommended changes for corporate credit unions were being developed or implemented when the document was released.

FEDERAL CORPORATE CREDIT UNIONS
DECEMBER 31, 1997

CORPORATE NAME	CITY, STATE	ASSETS (in millions)
Eastern Corporate	Woburn, Massachusetts	712.8
Empire Corporate	Albany, New York	2,052.7
Indiana Corporate	Indianapolis, Indiana	785.5
Kentucky Corporate	Louisville, Kentucky	212.6
LICU Corporate	Endicott, New York	5.1
Mid-Atlantic Corporate	Harrisburg, Pennsylvania	1,569.1
Mid-States Corporate	Naperville, Illinois	1,674.1
Nebraska Corporate	Omaha, Nebraska	98.9
Pacific Corporate	Honolulu, Hawaii	228.9
South Dakota Corporate	Sioux Falls, South Dakota	49.6
Southeast Corporate	Tallahassee, Florida	1,550.3
Southwest Corporate	Dallas, Texas	3,167.4
Tricorp Corporate	Westbrook, Maine	245.6
Virginia League Corporate	Lynchburg, Virginia	572.9
Western Corporate	San Dimas, California	9,488.9
Total		**$ 22,414.5**

FEDERALLY INSURED STATE CORPORATE CREDIT UNIONS
DECEMBER 31, 1997

CORPORATE NAME	CITY, STATE	ASSETS (in millions)
Alabama Corporate	Birmingham, Alabama	$ 385.2
Arizona Corporate	Phoenix, Arizona	493.9
Central Credit Union Fund	Auburn, Massachusetts	154.7
Central Corporate	Southfield, Michigan	1,596.4
Constitution State	Wallingford, Connecticut	726.6
Corporate Central	Salt Lake City, Utah	271.8
Corporate One	Columbus, Ohio	1,043.6
First Carolina Corporate	Greensboro, North Carolina	683.3
Georgia Central	Duluth, Georgia	741.8
Idaho Corporate	Boise, Idaho	119.7
Iowa League Corporate	Des Moines, Iowa	262.8
Kansas Corporate	Wichita, Kansas	229.4
Louisiana Corporate	Metairie, Louisiana	72.3
Minnesota Corporate	St. Paul, Minnesota	384.1
Northwest Corporate	Beaverton, Oregon	454.6
System United Corporate	Arvada, Colorado	689.6
Volunteer Corporate	Brentwood, Tennessee	460.9
Washington Corporate	Tukwila, Washington	229.7
West Virginia	Parkersburg, West Virginia	135.0
Total		**$ 9,135.5**

NONFEDERALLY INSURED CORPORATE CREDIT UNIONS DECEMBER 31, 1997

CORPORATE NAME	CITY, STATE	ASSETS (in millions)
Missouri Corporate	St. Louis, Missouri	597.3
North Dakota Corporate	Bismarck, North Dakota	113.0
Treasure State Corporate	Helena, Montana	123.1
Wisconsin Corporate	Hales Corners, Wisconsin	714.1
Total		**$ 1,547.6**
Total for All Corporates (Excluding U.S. Central)		**$ 33,097.6**
U.S. Central Credit Union		$ 18,206.6

KEY STATISTICS ON FEDERALLY INSURED CORPORATE CREDIT UNIONS DECEMBER 31 (IN MILLIONS)

	1995	1996	1997
Number:	37	36	35
Assets:	$31,912.6	$28,386.5	$31,550.1
Loans:	293.5	315.7	289.9
Shares:	27,537.0	22,742.2	25,477.4
Reserves:	602.2	2,026.6*	2,088.5*
Undivided earnings:	253.7	312.8	393.1
Gross income:	1,860.3	1,745.3	1,756.4
Operating expenses:	118.4	128.5	136.7
Interest on borrowed funds:	209.0	153.0	143.8
Dividends and interest:	1,469.2	1,375.8	1,425.2
Reserve transfers:	16.2	8.2	5.4
Net income:	47.5	73.7	45.6

Dollar amounts do not include U.S. Central
**Includes Membership Capital Share Deposits*

SIGNIFICANT RATIOS

	1995	1996	1997
Reserves to assets:	1.9	7.1*	6.6*
Reserves and undivided earnings to assets:	2.7	8.2*	7.9*
Operating expenses to gross income:	6.4	7.3	7.7
Yield on assets:	5.7	6.2	5.7
Cost of funds to assets:	4.6	5.4	5.0
Gross spread:	1.1	.8	7

Ratios do not include U.S. Central
**Includes Membership Capital Share Deposits*

Asset Management and Assistance Center

AMAC Posts Strong Recoveries

The Asset Management and Assistance Center (AMAC) has recovered in excess of $459.1 million at a historic cost to recovery ratio of 13.2 percent since liquidation activity was combined in this office in 1990.

In 1997, liquidation activity reflected the favorable condition of credit unions – AMAC handled only six involuntary credit union liquidations. AMAC also worked to resolve portions of two purchase and assumptions and two voluntary liquidations. At the end of the year, 63 credit unions remained in the process of liquidation. On average, the AMAC pursues avenues of recovery and asset liquidation for 33 months after a closure.

One 1997 liquidation, caused by fraud and embezzlement, produced much of the liquidation workload. Espirito Santo Federal Credit Union, Fall River, MA, was placed into involuntary liquidation September 5, with recorded shares of $12.8 million. In reconstructing the records, AMAC has:

- Documented unrecorded shares of $4.3 million;
- Identified $1.5 million of potentially fictitious or fraudulent loans; and
- Paid share accounts totaling $14.2 million.

Liquidations involving fraud are time consuming. Share payouts, often completed within hours, must be delayed in fraud cases until accounts are researched and reconstructed. Reconstruction is necessary for an accurate share payout and to assist the U. S. Attorney in obtaining indictments. In addition, the liquidation of assets and other recovery activities normally takes several years.

Starting in 1996, some consumer loans are serviced internally by AMAC staff. The resources needed to collect the loans depends upon the cause of liquidation. Some portfolios require minimal effort to collect while others require legal action. Experience has shown that internal servicing combined with outside servicers lower collection costs.

Consumer loan collections totaled $4,311,317 in 1997 at a cost to recovery ratio of 10.4 percent. This compares favorably to the 15.8 percent ratio achieved by AMAC in 1996 and to the 12 to 15 percent charged by outside servicers. In addition to achieving recoveries at market cost, AMAC pursues more difficult collections for regulatory reasons. Outside collectors may not make the same effort on the difficult accounts because of costs and time involved.

During 1997, 25 real estate assets were sold with net values totaling $4.4 million. Two credit union office sales represented the largest sale amounts.

AMAC's workload is considerably broader than liquidations and recoveries on assets. AMAC staff has expended significant resources on non-liquidation matters in each NCUA region. Historically, AMAC assists with reviewing large, complex loan portfolios and actual or potential bond claims. AMAC staff also assists and participates extensively in the operational phases of conservatorships and record reconstructions. In 1997, AMAC staff also assisted with the negotiation of two regional office leases.

Consumer loan collections totaled $4,311,317 in 1997 at a cost to recovery ratio of 10.4 percent.

Central Liquidity Facility

Meeting Liquidity Needs

The Central Liquidity Facility (CLF) was created by Congress in 1979 to provide a backup source of liquidity to meet the unique needs and requirements of the credit union system. Credit unions can access the CLF either through corporate credit unions, who serve as agents of the CLF, or by joining the CLF directly as regular members. Both agent members and regular members must purchase a prescribed amount of stock in the CLF.

The CLF initiated several important changes in 1997 designed to improve operations and better serve member credit unions. An amendment to the CLF regulation regarding loan collateral (§725.19) now permits a credit union the option of pledging specific assets as loan collateral or continuing to grant a blanket lien on all assets, as the regulation previously required. Pledged assets must have a book value at least equal to 110 percent of the amount of the loan. This change was designed to give credit unions greater flexibility and to permit them to establish lending agreements with multiple sources.

The CLF also automated its annual stock adjustment process in 1997. Corporate credit unions now submit membership information on computer diskettes and necessary financial information on member credit unions is automatically retrieved from the NCUA call report data base. This change reduces reporting time and effort for corporate credit unions and results in more accurate calculations.

The CLF funds its operating costs with a portion of the earnings on investments of member stock deposits. During 1997, the CLF returned 99.59 percent of its investment earnings as dividends to its members. Dividends averaged 5.696 percent for the year.

During 1997, credit unions remained very liquid and capital reached all-time record levels. As a result, credit union borrowing remained low, and predictably, the CLF was not called upon to grant any loans. However, during the year the CLF arranged 14 Guaranteed Lines of Credit, totaling $7,640,000, enabling corporate credit unions to provide needed liquidity to troubled member credit unions. This form of special assistance is guaranteed by the National Credit Union Share Insurance Fund.

The CLF again received an unqualified audit opinion from its independent auditors for 1997.

Operating Fund

Assessment Rate Reduced 2.9 Percent

The 1997 assessment rate for the Operating Fund was reduced by 2.9 percent due to a modest 1997 NCUA budget increase of 3.2 percent. From 1994 through 1997, federal credit union operating fees declined 22.7 percent and fees have not increased since 1991. The goal has been to reduce the Operating Fund balance to the NCUA Board approved level of $5 million.

The Operating Fund earned revenue of $46.3 million in fiscal year 1997 — $44.7 million was from operating fees and the balance was from interest and other income. Operating expenses for 1997 were $48.6 million. This was $1.3 million under the budgeted amount of $49.9 million. Most of the savings can be attributed to unfilled staff vacancies as a result of the OPM decision to suspend NCUA hiring authority.

From 1994 through 1997, federal credit union operating fees declined 22.7 percent and fees have not increased since 1991.

The 1997 budget projected a net loss to the Operating Fund of over $3 million. However, with cost savings from the vacant staff positions, the net loss for 1997 was approximately $2.3 million. As a result, the Fund balance was $6.1 million at year end. It is projected that the Board approved $5 million Fund balance will be achieved in 1998.

NCUA operating costs are shared by the Operating Fund and the National Credit Union Share Insurance Fund (NCUSIF). Each month an accounting procedure transfers funds from the NCUSIF to the Operating Fund to support agency operations. A 1997 study of staff time dedicated to insurance and supervision activities supported a transfer rate of 50 percent. The NCUA Board has approved this rate for three years. The rate is scheduled to be reevaluated in 2000; however, the NCUA Board retains the right to revisit the overhead transfer allocation on an annual basis.

At its December 1997 meeting, the NCUA Board agreed to modify the transfer rate for 1998 based upon the cost of operating the corporate program. For 1998 only, approximately 51.5 percent of the agency's operating costs will be financed by the NCUSIF. The remaining cost of operations is financed primarily through annual federal credit union operating fees, with excess cash invested in US Treasury income producing securities. Miscellaneous income is provided primarily from the sale of publications.

For the 13th consecutive year, independent accountants rendered unqualified opinions for NCUA's financial units. Their audit reports and the comparative financial statements of the Operating Fund, the Share Insurance Fund, and the Central Liquidity Facility for fiscal years 1996 and 1997 follow:

Auditor's Report

Deloitte &
Touche LLP

1900 M Street NW
Washington, DC 20036-3564

Telephone: (202) 955-4000
Facsimile: (202) 955-4294

INDEPENDENT AUDITORS' REPORT

To the Inspector General of the
National Credit Union Administration:

We have audited the financial statements appearing on pages 24-43 of this Annual Report of, respectively, the National Credit Union Administration Operating Fund, Share Insurance Fund and Central Liquidity Facility (collectively, the "funds") as of and for the years ended December 31, 1997 and 1996. These financial statements are the responsibility of the National Credit Union Administration's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Credit Union Administration Operating Fund, of the Share Insurance Fund, and of the Central Liquidity Facility, at December 31, 1997 and 1996, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued reports dated February 25, 1998, not presented herein, related to the funds' internal control over financial reporting and to our tests of their compliance with certain provisions of laws and regulations.

Deloitte & Touche LLP

February 25, 1998

Deloitte Touche
Tohmatsu

NATIONAL CREDIT UNION ADMINISTRATION
SHARE INSURANCE FUND

BALANCE SHEETS
DECEMBER 31, 1997 AND 1996
(Dollars in Thousands)

ASSETS	1997	1996
Investments	$3,125,921	$2,924,467
Cash and cash equivalents	472,962	500,237
Accrued interest receivable	37,803	37,491
Assets acquired in assistance to insured credit unions	21,136	21,830
Capital notes advanced to insured credit unions	1,211	265
Notes receivable - National Credit Union Administration Operating Fund	35,987	37,400
Other notes receivable	454	2,306
TOTAL ASSETS	$3,695,474	$3,523,996

LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Estimated losses from supervised credit unions	$ 80,775	$ 89,667
Estimated losses from asset and merger guarantees	257	188
Amounts due to insured shareholders of liquidated credit unions	20,148	21,060
Due to National Credit Union Administration Operating Fund	114	324
Accounts payable	494	593
Total liabilities	101,788	111,832
COMMITMENTS AND CONTINGENCIES (Notes 3, 8, 10, and 12)		
FUND BALANCE:		
Insured credit unions' accumulated contributions	2,772,896	2,637,743
Insurance fund balance	820,790	774,421
Total fund balance	3,593,686	3,412,164
TOTAL LIABILITIES AND FUND BALANCE	$3,695,474	$3,523,996

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
SHARE INSURANCE FUND

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1997 AND 1996
(Dollars in Thousands)

	1997	1996
REVENUE:		
Interest	$201,938	$184,715
Other	2,151	2,148
Total revenue	204,089	186,863
EXPENSES:		
Administrative expenses (Note 8)		
Employee wages and benefits	34,196	33,110
Travel	5,281	5,060
Rent, communications, and utilities	1,380	1,603
Contracted services	2,131	1,401
Other	6,779	6,046
Total administrative expenses	49,767	47,220
Provision for insurance losses	-	-
Total expenses	49,767	47,220
EXCESS OF REVENUE OVER EXPENSES	$154,322	$139,643

STATEMENTS OF FUND BALANCE
YEARS ENDED DECEMBER 31, 1997 AND 1996
(Dollars in Thousands)

	Insured Credit Unions' Accumulated Contributions	Insurance Fund Balance
BALANCE AT JANUARY 1, 1996	$2,512,474	$ 737,528
Contributions from insured credit unions	125,269	-
Excess of revenue over expenses	-	139,643
Dividends to insured credit unions	-	(102,750)
BALANCE AT DECEMBER 31, 1996	2,637,743	774,421
Contributions from insured credit unions	135,153	-
Excess of revenue over expenses	-	154,322
Dividends to insured credit unions	-	(107,953)
BALANCE AT DECEMBER 31, 1997	$2,772,896	$ 820,790

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
SHARE INSURANCE FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1997 AND 1996
(Dollars in Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from investments	$201,626	$ 201,629
Other income received	730	2,941
Cash paid for operating expenses	(49,832)	(47,763)
Net cash (paid) received for insurance losses	(6,958)	(3,037)
Net cash provided by operating activities	145,566	153,770
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments, net	(201,454)	14,968
Collections on note receivable - National Credit Union Administration Operating Fund	1,413	1,413
Net cash provided by (used in) investing activities	(200,041)	16,381
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions from insured credit unions	135,153	125,269
Dividends to insured credit unions	(107,953)	(102,750)
Net cash provided by financing activities	27,200	22,519
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(27,275)	192,670
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	500,237	307,567
CASH AND CASH EQUIVALENTS, END OF YEAR	$472,962	$ 500,237

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
SHARE INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1997 AND 1996

1. ORGANIZATION AND PURPOSE

The National Credit Union Share Insurance Fund Administration Share Insurance Fund (the Fund) was created by the Public Law 91-468 (Title II of the Federal Credit Union Act), which was amended in 1984 by Public Law 98-369 as discussed in Note 4. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board for the purpose of insuring member share deposits in all federal credit unions and in qualifying state credit unions that request insurance. The maximum amount of insurance is $100,000 per shareholder account.

NCUA exercises direct supervisory authority over federal credit unions and coordinates required supervisory involvement with the state chartering authority for state-chartered credit unions insured by the Fund. Insured credit unions are required to report certain financial and statistical information to NCUA on a semiannual or quarterly basis depending on the size of the credit union and are subject to periodic examination by NCUA. Information derived through the supervisory and examination process provides the Fund with the ability to identify credit unions experiencing financial difficulties that may require assistance from the Fund.

Credit unions experiencing financial difficulties may be assisted by the Fund in continuing their operations if the difficulties are considered by the Fund to be temporary or correctable. This special assistance may be in the form of a waiver of statutory reserve requirements, a guarantee account, and/or cash assistance. If continuation of the credit union's operations with Fund assistance is not feasible, a merger partner may be sought. If the assistance or merger alternatives are not practical, the credit union is liquidated.

The first form of special assistance is waivers of statutory reserve requirements, whereby the credit union is permitted to cease making additions to its regular reserve and, in more severe cases, to commence charging operating losses against its regular reserve. When all reserves have been depleted by the credit union, the fund may provide a reserve guarantee account in the amount of the reserve deficit. In addition, the Fund may provide cash assistance in the form of share deposits and capital notes or may purchase assets from the credit union.

Mergers of financially troubled credit unions with stronger credit unions may also require Fund assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the Fund, and/or guarantees of the values of certain assets (primarily loans).

When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the Fund will liquidate the credit union, dispose of its assets, and pay members' shares up to the maximum insured amount. The values of certain assets sold (primarily loans) are sometimes guaranteed to third-party purchasers by the Fund.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents and Investments - Title II of the Federal Credit Union Act limits the Fund's investments to United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less.

During 1994, the Fund adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and has classified all investments as held-to-maturity. Accordingly, the Fund records investments at amortized cost.

Advances to Insured Credit Unions - The Fund provides cash assistance in the form of interest and non-interest-bearing capital notes (carried at face value), share deposits, and loans to certain credit unions to assist them in continuing operations.

Assets Acquired from Credit Unions - The Fund acquires the assets of liquidating credit unions pending their ultimate disposition. To assist in the merger of credit unions, the Fund may purchase certain credit union assets. In addition, the Fund may provide cash assistance by acquiring nonperforming assets of a

credit union experiencing financial difficulty. Such assets acquired are maintained by the Asset Management and Assistance Center in Austin, Texas, and are recorded at their estimated net realizable value.

Premium Revenue - The Fund may assess each insured credit union a regular annual premium of 1/12 of 1% of its member share deposits (insured member share deposits in the case of corporate credit unions) outstanding as of December 31 of the preceding insurance year. The NCUA Board waived the 1997 and 1996 share insurance premium.

Income Taxes - The Fund is exempt from Federal income taxes under §501(c)(1) of the Internal Revenue Code.

Fair Value of Financial Instruments - The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

a. *Cash and Cash Equivalents* - The carrying amounts for cash and cash equivalents approximate fair values.

b. *Investments* - The fair value for investments is the quoted market value.

c. *Capital Notes and Other Notes Receivable* - It is not practicable to estimate the fair value of these assets as there is no secondary market, and the Fund has the ability and the intention to hold these notes to maturity.

d. *Other* - Accrued interest receivable, notes receivable from NCUA Operating Fund, payable to NCUA Operating Fund, due to insured shareholders of liquidated credit unions and other accounts payable are recorded at book values, which approximate the respective fair values.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

3. PROVISION FOR INSURANCE LOSSES

Management identifies credit unions experiencing financial difficulty through the supervisory and examination process. The estimated losses from these supervised credit unions are determined by management on a specified case basis. Management also evaluates overall economic trends and monitors potential system-wide risk factors such as increasing levels of consumer debt, bankruptcies, and delinquencies. Nonspecified case reserve requirements are determined based upon an assessment of insured risk and historic loss experience. The anticipated losses are net of estimates of recoveries from the assets of failed credit unions.

Total insurance in force as of December 31, 1997, is $294 billion. The total net reserves for identified and anticipated losses from supervised credit unions' failures were $81 million at December 31, 997. Should there be no recoveries provided during the resolution process, possible additional reserves for $30 million would be required.

In exercising its supervisory function, the Fund will, at times, extend guarantees of assets (primarily loans) to third-party purchasers or to credit unions to facilitate mergers; such guarantees totaled approximately $933,000 and $1,000,000 at December 31, 1997 and 1996, respectively. The estimated losses from asset and merger guarantees are determined by management on a case-by-case evaluation.

In addition, the Fund guarantees loans made by the NCUA's Central Liquidity Facility (CLF). Total line-of-credit guarantees of credit unions at December 31, 1997 and 1996, are approximately $4,241,000 and $5,475,000, respectively. The total balances outstanding under these line-of-credit guarantees at December 31, 1997 and 1996, are approximately $-0- and $247,000, respectively.

The activity in the reserves for estimated losses from supervised credit unions and asset and merger guarantees was as follows (in thousands):

	Year Ended December 31,	
	1997	1996
BEGINNING BALANCE	$ 89,855	$ 98,150
Provision for insurance losses	-	-
Insurance losses	(12,916)	(24,008)
Recoveries	4,093	15,713
ENDING BALANCE	$ 81,032	$ 89,855

4. FUND CAPITALIZATION

Title VIII of Public Law 98-369, effective July 14, 1984, provided for the capitalization of the Fund through the contribution by each insured credit union of an amount equal to 1% of the credit union's insured shares to be paid initially by January 21, 1985, and to be adjusted annually thereafter. The annual adjustment of the contribution is based on member share deposits outstanding as of December 31 of the preceding year and is billed on a calendar year basis. The 1% contribution will be returned to the insured credit union in the event that its insurance coverage is terminated, insurance coverage is obtained from another source, or the operations of the Fund are transferred from the NCUA Board.

The law requires that, upon receipt of the 1% contribution, the total fund balance must be maintained at a normal operating level as determined by the NCUA Board. The NCUA Board has determined this level to range from 1.25% to 1.30% of insured shares. The level at both December 31, 1997 and 1996, was 1.30%. Total insured shares at December 31, 1997 and 1996, were $294 billion and $276 billion, respectively.

The NCUA Board declared and paid dividends of approximately $107,953,000 and $102,750,000 during 1997 and 1996, respectively.

5. INVESTMENTS

All cash received by the Fund that is not used for outlays related to assistance to insured credit unions and liquidation activities is invested in U. S. Treasury securities.

Investments consist of the following (in thousands):

	December 31, 1997				
	Yield to Maturity at Market	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. TREASURY SECURITIES:					
Maturities up to one year	5.40 %	$1,399,078	$ 330	$ (2,205)	$1,397,203
Maturities after one year through five years	6.25 %	1,726,843	18,395	(590)	1,744,648
Total		$3,125,921	$18,725	$ (2,795)	$3,141,851

	December 31, 1996				
	Yield to Maturity at Market	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. TREASURY SECURITIES:					
Maturities up to one year	6.09 %	$ 901,515	$ 674	$ (2,627)	$ 899,562
Maturities after one year through five years	5.60 %	2,022,952	7,214	(14,751)	2,015,415
Total		$2,924,467	$ 7,888	$(17,378)	$2,914,977

Total investment purchases during 1997 and 1996 were approximately $1,100,000,000 and $900,000,000, respectively. Investment maturities during 1997 and 1996 were approximately

$900,000,000 and $800,000,000, respectively. The Fund has the capability and management has the intention to hold all investments held at December 31, 1997 and 1996, to maturity. There were no investment sales during 1997 and 1996.

6. OTHER ASSETS

Other assets are primarily comprised of secured and unsecured term notes related to the sale of assets held by the Asset Management and Assistance Center and recoveries on failed credit unions. The notes are being repaid in monthly principal installments with terms ranging from one to thirty years and interest rates ranging from 8.0% to 10.5%.

7. AVAILABLE BORROWINGS

The Fund is authorized under the Federal Credit Union Act to borrow from the Treasury of the United States upon authorization by the NCUA Board to a maximum of $100,000,000 outstanding at any one time. The CLF is authorized to make advances to the Fund under such terms and conditions as may be established by the NCUA Board. No amounts were borrowed from these sources during 1997 and 1996.

8. TRANSACTIONS WITH NCUA OPERATING FUND

Substantial administrative services are provided to the Fund by the NCUA Operating Fund. NCUA charges the Fund for these services based on an annual allocation factor approved by the NCUA Board derived from a study conducted by these Funds of actual usage. The allocation factor was 50% to the Fund and 50% to the NCUA Operating Fund for 1997 and 1996. The cost of services provided by the NCUA Operating Fund was approximately $48,607,000 and $46,084,000 for 1997 and 1996, respectively, and includes pension contributions of approximately $3,353,000 and $3,155,500 to the Civil Service Retirement System and Federal Employees Retirement System defined benefit retirement plans for 1997 and 1996, respectively.

In 1988, the Fund entered into a $2,161,000 thirty-year unsecured term note with the NCUA Operating Fund. Interest received was $83,000 for 1997 and $84,000 for 1996. The note receivable balance at December 31, 1997 and 1996, was $1,458,000 and $1,530,000, respectively.

In 1992, the Fund entered into a commitment to fund up to $41,975,000 thirty-year secured term note with the NCUA Operating Fund. The monies were advanced to the NCUA Operating Fund as needed to fund the costs of constructing a new building. Interest income was $1,945,000 and $1,966,000 for 1997 and 1996, respectively. The note receivable balance at December 31, 1997 and 1996 was $34,529,000 and $35,870,000, respectively.

The above notes mature as follows (in thousands):

	Unsecured Term Note	Secured Term Note	Total
1998	$ 72	$ 1,344	$ 1,416
1999	72	1,344	1,416
2000	72	1,344	1,416
2001	72	1,344	1,416
2002	72	1,344	1,416
Thereafter	1,098	27,809	28,907
Total	$1,458	$34,529	$35,987

The variable rate on both term notes is equal to the Fund's prior-month yield on investments. The average interest rate during 1997 and 1996 was approximately 5.53% and 5.29%, respectively. At December 31, 1997, the rate was 5.71%.

The NCUA Operating Fund leases certain office space under lease agreements that expire through 2003. Based on the allocation factor approved by the NCUA Board for 1997, the Fund will reimburse the NCUA Operating Fund for approximately 50% of the future lease payments. The cost of services provided by the NCUA Operating Fund includes rental charges of approximately $339,000 and $494,500 for 1997 and 1996, respectively. The amounts were derived using the current annual allocation factor.

The NCUA Operating Fund's total future minimum lease payments as of December 31, 1997, are as follows (in thousands):

1998	$ 955
1999	1,003
2000	1,053
2001	1,107
2002	1,162
Thereafter	1,666
Total	$6,946

9. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the Fund's financial instruments are as follows:

	December 31, 1997		December 31, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	$3,125,921	$3,141,851	$2,924,467	$2,914,977
Cash and cash equivalents	472,962	472,962	500,237	500,237
Accrued interest receivable	37,803	37,803	37,491	37,491
Notes receivable - NCUA Operating Fund	35,987	35,987	37,400	37,400
Amounts due to insured shareholders of liquidated credit unions	20,148	20,148	21,060	21,060
Due to NCUA Operating Fund	114	114	324	324
Accounts payable	494	494	593	593

10. CONCENTRATIONS

There are no significant concentrations of member share deposits within any region of the United States. Concentrations of member shares do exist within the manufacturing, governmental, and educational industries.

11. CASH FLOW INFORMATION

The reconciliation of net income to net cash provided by operating activities is as follows (in thousands):

	Year Ended December 31, 1997	Year Ended December 31, 1996
Excess of revenue over expenses	$154,322	$139,643
Adjustments:		
Receipts (payments) relating to losses from supervised credit unions and assets and merger guarantees, net	(8,822)	(8,295)
(Increase) decrease in assets:		
Accrued interest receivable	(313)	16,914
Assets acquired from credit unions, net	694	8,376
Capital notes advanced to credit unions, net	(946)	(265)
Other notes receivable	1,852	1,058
(Decrease) increase in liabilities:		
Amounts due to National Credit Union Administration Operating Fund	(210)	(357)
Amounts due to insured shareholders of liquidated credit unions	(912)	(3,117)
Accounts payable	(99)	(187)
Net cash provided by operating activities	$145,566	$153,770

12. CONTINGENCIES

Field of Membership Litigation - Four North Carolina Banks and the American Bankers Association (ABA) have challenged NCUA's approval of charter amendments granted to AT&T Family Federal Credit Union (FCU). The banks challenged amendments which allowed select employee groups, unrelated

to the original sponsor, to join the FCU. Their claim is that the amendments violate the common bond requirements of the FCU Act.

The District Court concluded that NCUA's select employee group policy, which permitted more than one distinct employee group to exist in a single credit union, each with its own common bond, was a reasonable interpretation of the FCU Act. The banks appealed. On July 30, 1996, the U.S. court of appeals for the D.C. Circuit issued an opinion reversing the District Court. The Court concluded that all groups in a credit union must share a single common bond.

On remand to the District Court, the plaintiffs sought a nationwide injunction barring all federal credit unions from adding select employee groups that did not share a single common bond or adding new members to select employee groups already within their field of membership. NCUA objected, arguing that this relief went far beyond what was sought in the AT&T case. The District court then permitted the filing of a new lawsuit, ABA et al. v. NCUA et al., which for the first time directly challenged NCUA's multiple group policy nationwide. The Court then issued a nationwide injunction barring NCUA's group policy nationwide and prohibiting all federal credit unions from adding new select employee groups or new members to existing select employee groups.

On December 24, 1996, the Court of appeals issued a partial stay which allows credit unions to admit new members to existing select employee groups. They are still prevented from adding new groups. On February 24, 1997, the Supreme Court agreed to hear the case. On February 25, 1998, the Supreme Court issued a decision holding that banks do have standing to challenge NCUA's interpretation of Section 109 of the FCU Act, and that NCUA's interpretation of that section is contrary to the unambiguous intent of Congress. The partial stay remains in effect pending further action by the Court of Appeals, and management expects to ask the Court to extend the partial stay pending appeals of several other viable issues as well as possible Congressional action.

There are a number of other field of membership cases which have been filed by banks or credit unions. These are all, however, cases which have been stayed or will be stayed, and are all dependent upon the ultimate outcome of the AT&T litigation.

If decided unfavorably, the litigation could have a significant impact on the credit union industry as a whole, as well as the Share Insurance Fund. In the opinion of management, the outcome of the litigation and its effects, if any, are not determinable.

Office of Personnel Management Action - In September 1997, the U.S. Office of Personnel Management (OPM) transmitted to NCUA a report entitled "Report of a Delegated Examining Oversight Review, National Credit Union Administration," dated June 16-20, 1997 (the "OPM Report"). The OPM Report concluded that NCUA had violated merit systems principles and committed prohibited personnel practices. As a result of the OPM Report, NCUA has lost its hiring authority and is required to undertake certain remedial actions with respect to its personnel activities, including reanouncement of positions that had been improperly filled. As a result of the OPM Report and the recommendations of a special task force, NCUA reassigned its Director of Human Resources and terminated the then Executive Director.

The OPM referred the aforementioned matter to the Office of Special Counsel (OSC) for an investigation of prohibited personnel practices. Once the investigation is complete, the OSC will either take corrective action on its own or order NCUA to do so.

The resolution of these matters may result in claims against NCUA as well as additional costs related to the remedial personnel actions required. In the opinion of management, the ultimate resolution of these matters will not be material to NCUA's financial position.

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NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

BALANCE SHEETS
DECEMBER 31, 1997 AND 1996
(Dollars in Thousands)

ASSETS	1997	1996
Cash and cash equivalents	$ 7,549	$ 12,851
Due from National Credit Union Share Insurance Fund (Note 4)	114	324
Employee advances	706	218
Other accounts receivable	94	581
Prepaid expenses	113	90
Fixed assets - net of accumulated depreciation and amortization (Note 3)	43,187	43,829
Employee residences held for resale	611	768
TOTAL ASSETS	$ 52,374	$ 58,661

LIABILITIES AND FUND BALANCE

	1997	1996
LIABILITIES:		
Accounts payable	$ 2,623	$ 2,337
Accrued wages and benefits	2,089	4,505
Accrued annual leave	4,892	5,344
Accrued employee travel	688	669
Notes payable to National Credit Union Share Insurance Fund (Note 4)	35,987	37,400
Total liabilities	46,279	50,255
COMMITMENTS AND CONTINGENCIES (Notes 5 and 9)	-	-
FUND BALANCE	6,095	8,406
TOTAL LIABILITIES AND FUND BALANCE	$ 52,374	$ 58,661

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION OPERATING FUND

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE
YEARS ENDED DECEMBER 31, 1997 AND 1996
(Dollars in Thousands)

	1997	1996
REVENUE:		
Operating fees	$ 44,701	$43,758
Interest	1,278	1,306
Other	317	333
Total revenue	46,296	45,397
EXPENSES (Note 4):		
Employee wages and benefits	34,197	33,110
Travel	5,281	5,059
Rent, communications, and utilities	1,380	1,603
Contracted services	2,131	1,401
Other	5,618	4,911
Total administrative expenses	48,607	46,084
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(2,311)	(687)
FUND BALANCE, BEGINNING OF YEAR	8,406	9,093
FUND BALANCE, END OF YEAR	$ 6,095	$ 8,406

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1997 AND 1996
(Dollars in Thousands)

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from operating fees	$ 44,666	$ 43,758
Interest received from cash and cash equivalents	1,279	1,310
Other income received	561	851
Cash paid for operating expenses	(46,295)	(42,496)
Net cash provided by operating activities	211	3,423
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(4,930)	(2,880)
Proceeds from sale of fixed assets	830	1,348
Net cash used in investing activities	(4,100)	(1,532)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(1,413)	(1,413)
Net cash used in financing activities	(1,413)	(1,413)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,302)	478
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,851	12,373
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 7,549	$ 12,851

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
OPERATING FUND

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1997 AND 1996

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Operating Fund (the Fund) was created by the Federal Credit Union Act of 1934. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration Board for the purpose of providing administration and service to the Federal Credit Union System.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents - The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less. All investments in 1997 and 1996 were cash equivalents and are stated at cost, which approximates market.

Depreciation and Amortization - Building, furniture and equipment, and leasehold improvements are recorded at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the building and furniture and equipment, and the shorter of the estimated useful life or lease term for leasehold improvements. Estimated useful lives are forty years for the building and three to ten years for the furniture and equipment and leasehold improvements.

Operating Fees - The Fund assesses each federally chartered credit union an annual fee based on the credit union's asset base as of the preceding December 31. The fee is designed to cover the costs of providing administration and service to the Federal Credit Union System. The Fund recognizes this operating fee revenue ratably over the year.

Income Taxes - The Fund is exempt from Federal income taxes under §501(c)(1) of the Internal Revenue Code.

Fair Value of Financial Instruments - The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

> Cash and cash equivalents, receivable from National Credit Union Share Insurance Fund (NCUSIF), employee advances, other accounts receivable, accounts and notes payable to NCUSIF, and other accounts payable are recorded at book values, which approximate the respective fair market values.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

3. FIXED ASSETS

Fixed assets are comprised of the following (in thousands):

	1997	1996
Office building and land	$ 42,229	$ 42,229
Furniture and equipment	20,544	19,301
Leasehold improvements	19	49
Total	62,792	61,579
Less: Accumulated depreciation and amortization	19,605	17,750
Fixed assets, net	$ 43,187	$ 43,829

4. TRANSACTIONS WITH NCUSIF

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board derived from an estimate of actual usage. The allocation factor was 50% to NCUSIF and to the Fund for 1996 and 1997. The cost of the services allocated to NCUSIF, which totaled approximately $48,607,000 and $46,084,000 for 1997 and 1996, respectively, are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

In 1988, the Fund entered into a $2,161,000 thirty-year unsecured term note with NCUSIF for the purchase of a building. Interest costs incurred were approximately $83,000 for 1997 and $84,000 for 1996. The outstanding principal balance at December 31, 1997 and 1996, was $1,458,000 and $1,530,000, respectively.

In 1992, the Fund entered into a commitment to borrow up to $41,975,000 in a thirty-year secured term note with NCUSIF. The monies were drawn as needed to fund the costs of constructing a new building. Interest costs incurred were approximately $1,945,000 and $1,966,000 for 1997 and 1996, respectively. The note payable balance at December 31, 1997 and 1996, was $34,529,000 and $35,870,000, respectively.

The above notes require principal repayments as follows (in thousands):

	Unsecured Term Note	Secured Term Note	Total
1998	$ 72	$ 1,344	$ 1,416
1999	72	1,344	1,416
2000	72	1,344	1,416
2001	72	1,344	1,416
2002	72	1,344	1,416
Thereafter	1,098	27,809	28,907
	$1,458	$34,529	$35,987

The variable rate on both notes is equal to NCUSIF's prior-month yield on investments. The average interest rate during 1997 and 1996 was approximately 5.53% and 5.35%, respectively.

5. COMMITMENTS

The Fund leases office space under lease agreements that expire through 2003. Office rental charges amounted to approximately $678,000 and $989,000 of which approximately $339,000 and $494,500 was reimbursed by NCUSIF for 1997 and 1996, respectively. In addition, the Fund leases office equipment under operating leases with lease terms less than one year.

The future minimum lease payments as of December 31, 1997, are as follows (in thousands):

1998	$ 955
1999	1,003
2000	1,053
2001	1,107
2002	1,162
Thereafter	1,159
	$6,439

Based on the allocation factor approved by the NCUA Board for 1997, NCUSIF will reimburse the Fund for approximately 50% of the future lease payments.

6. RETIREMENT PLAN

The employees of the Fund are participants in the Civil Service Retirement and Disability Fund, which includes the Federal Employees' Retirement System (FERS). Both plans are defined benefit retirement plans covering all of the employees of the Fund. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan, and a Savings Plan. Contributions to the plans are based on a percentage of employees' gross pay. Under the Savings Plan employees can also elect additional contributions between 1% and 10% of their gross pay, and the Fund will match up to 5% of the employees' gross pay. In 1997 and 1996, the Fund's contributions to the plans were approximately, $6,705,000 and $6,311,000,

respectively, of which approximately $3,352,500 and $3,155,000 were reimbursed by NCUSIF, respectively.

The Fund does not account for the assets of the above plans and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by the U.S. Office of Personnel Management for the Civil Service Retirement and Disability Fund and are not allocated to individual employers.

7. DISCLOSURES OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the Fund's financial instruments are as follows (in thousands):

	December 31, 1997		December 31, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 7,549	$ 7,549	$12,851	$12,851
Due from NCUSIF	114	114	324	324
Employee advances	706	706	218	218
Other accounts receivable	59	59	581	581
Accounts payable	2,623	2,623	2,337	2,337
Notes payable to NCUSIF	35,987	35,987	37,400	37,400

8. CASH FLOW INFORMATION

The reconciliation of the excess (deficiency) of revenues over expenses to net cash provided by operating activities is as follows (in thousands):

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (deficiency) of revenue over expenses	$ (2,311)	$ (687)
Adjustments to reconcile excess (deficiency) of revenues over expenses:		
Depreciation and amortization	4,680	3,692
Loss on disposal of assets	149	189
Miscellaneous allowances	70	92
(Increase) decrease in assets:		
Amounts due from National Credit Union Share Insurance Fund	210	357
Employee advances	(488)	(10)
Other accounts receivable	487	127
Prepaid expenses	(23)	5
(Decrease) increase in liabilities:		
Accounts payable	286	(1,372)
Accrued wages and benefits	(2,416)	510
Accrued annual leave	(452)	533
Accrued employee travel	19	(13)
Net cash provided by operating activities	$ 211	$3,423

9. CONTINGENCIES

Field of Membership Litigation - Four North Carolina Banks and the American Bankers Association (ABA) have challenged NCUA's approval of charter amendments granted to AT&T Family Federal Credit Union (FCU). The banks challenged amendments which allowed select employee groups, unrelated to the original sponsor, to join the FCU. Their claim is that the amendments violate the common bond requirements of the FCU Act.

The District Court concluded that NCUA's select employee group policy, which permitted more than one distinct employee group to exist in a single credit union, each with its own common bond, was a reasonable interpretation of the FCU Act. The banks appealed. On July 30, 1996, the U.S. court of appeals for the D.C. Circuit issued an opinion reversing the District Court. The Court concluded that all groups in a credit union must share a single common bond.

On remand to the District Court, the plaintiffs sought a nationwide injunction barring all federal credit unions from adding select employee groups that did not share a single common bond or adding new members to select employee groups already within their field of membership. NCUA objected arguing

that this relief went far beyond what was sought in the AT&T case. The District court then permitted the filing of a new lawsuit, ABA et al. v. NCUA et al., which for the first time directly challenged NCUA's multiple group policy nationwide. The Court then issued a nationwide injunction barring NCUA's group policy nationwide and prohibiting all federal credit unions from adding new select employee groups or new members to existing select employee groups.

On December 24, 1996, the Court of appeals issued a partial stay which allows credit unions to admit new members to existing select employee groups. They are still prevented from adding new groups. On February 24, 1997, the Supreme Court agreed to hear the case. On February 25, 1998, the Supreme Court issued a decision holding that banks do have standing to challenge NCUA's interpretation of Section 109 of the FCU Act, and that NCUA's interpretation of the section is contrary to the unambiguous intent of Congress. The partial stay remains in effect pending further action by the Court of Appeals, and management expects to ask the Court to extend the partial stay pending appeals of several other viable issues as well as possible Congressional action.

There are a number of other field of membership cases which have been filed by banks or credit unions. These are all, however, cases which have been stayed or will be stayed, and are all dependent upon the ultimate outcome of the AT&T litigation.

If decided unfavorably, the litigation could have a significant impact on the credit union industry as a whole, as well as the NCUA. In the opinion of management, the outcome of the litigation and its effects, if any, are not determinable.

Office of Personnel Management Action - In September 1997, the U.S. Office of Personnel Management (OPM) transmitted to NCUA a report entitled "Report of a Delegated Examining Oversight Review, National Credit Union Administration," dated June 16-20, 1997 (the "OPM Report"). The OPM Report concluded that NCUA had violated merit systems principles and committed prohibited personnel practices. As a result of the OPM Report, NCUA has lost its hiring authority and is required to undertake certain remedial actions with respect to its personnel activities, including reanouncement of positions that had been improperly filled. As a result of the OPM Report and the recommendations of a special task force, NCUA reassigned its Director of Human Resources and terminated the then Executive Director.

The OPM referred the aforementioned matter to the Office of Special Counsel (OSC) for an investigation of prohibited personnel practices. Once the investigation is complete, the OSC will either take corrective action on its own or order NCUA to do so.

The resolution of these matters may result in claims against NCUA as well as additional costs related to the remedial personnel actions required. In the opinion of management, the ultimate resolution of these matters will not be material to NCUA's financial position.

Other Matters - In addition, NCUA is currently party to a number of other disputes which involve or may involve litigation. In the opinion of management the ultimate liability with respect to these disputes, if any, will not be material to NCUA's financial position.

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NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
DECEMBER 31, 1997 AND 1996
(Dollars in Thousands)

ASSETS	**1997**	**1996**
Cash	$ 14	$ 1
Investments with U.S. Central Credit Union (Notes 5 and 8)	763,332	725,039
Accrued interest receivable	9,718	9,432
TOTAL ASSETS	$773,064	$734,472

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES:		
Member deposits (Note 7)	$ 25,813	$ 16,668
Accounts payable and other liabilities	69	79
Total liabilities	25,882	16,747
MEMBERS' EQUITY:		
Capital stock - required (Note 7)	735,671	706,214
Retained earnings	11,511	11,511
Total members' equity	747,182	717,725
TOTAL LIABILITIES AND MEMBERS' EQUITY	$773,064	$734,472

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1997 AND 1996
(Dollars in Thousands)

	Years Ended December 31,	
	1997	**1996**
REVENUE - Investment income	$42,245	$39,625
EXPENSES:		
Operating expenses:		
Group agent service fee	2	2
Personnel services	97	96
Other services	30	28
Rent, communications and utilities	14	15
Personnel benefits	18	17
Supplies and materials	2	3
Employee travel	3	3
Printing and reproduction	6	3
Total operating expenses	172	167
Interest - member deposits	531	396
Total expenses	703	563
EXCESS OF REVENUE OVER EXPENSES	$41,542	$39,062

See notes to financial statements.

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 1997 AND 1996
(Dollars in Thousands)

	Capital Stock	Retained Earnings
BALANCE AT JANUARY 1, 1996	$683,691	$ 11,510
Issuance of required capital stock	28,257	-
Redemption of required capital stock	(5,734)	-
Dividends	-	(39,061)
Excess of revenue over expenses	-	39,062
BALANCE AT DECEMBER 31, 1996	706,214	11,511
Issuance of required capital stock	29,730	-
Redemption of required capital stock	(273)	-
Dividends	-	(41,542)
Excess of revenue over expenses		41,542
BALANCE AT DECEMBER 31, 1997	$735,671	$ 11,511

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1997 AND 1996
(Dollars in Thousands)

	Years Ended December 31,	
	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Investment income	$ 41,959	$ 38,857
Cash paid for operating expenses	(182)	(261)
Interest on member deposits	(531)	(396)
Net cash provided by operating activities	41,246	38,200
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(38,293)	(23,238)
Net cash used in investing activities	(38,293)	(23,238)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to member deposits	9,486	10,573
Issuance of required capital stock	29,730	28,257
Dividends	(41,542)	(39,061)
Withdrawal of member deposits	(341)	(8,998)
Redemption of required capital stock	(273)	(5,734)
Net cash (used in) provided by financing activities	(2,940)	(14,963)
NET INCREASE (DECREASE) IN CASH	13	(1)
CASH, BEGINNING OF YEAR	1	2
CASH, END OF YEAR	$ 14	$ 1

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1997 AND 1996

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Central Liquidity Facility (CLF) was created by the National Credit Union Central Liquidity Facility Act (the Act). The CLF is designated as a mixed-ownership government corporation under the Government Corporation Control Act. The CLF exists within the National Credit Union Administration (NCUA) and is managed by the National Credit Union Administration Board. The CLF became operational on October 1, 1979.

The purpose of the CLF is to improve general financial stability by meeting the liquidity needs of credit unions. The CLF is a tax-exempt organization under Section 501(c)(1) of the Internal Revenue Code.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The CLF maintains its accounting records on the accrual basis of accounting.

Allowance for Loan Losses - Loans to members are made on both a short-term and long-term basis. For all loans, the CLF either obtains a security interest in the assets of the borrower or in some cases receives the guarantee of the NCUA Share Insurance Fund.

The CLF evaluates the collectibility of its loans to members through examination of the financial condition of the individual borrowing credit unions and the credit union industry in general.

Investments - The CLF invests in redeposits and share accounts at U.S. Central Credit Union (see Notes 5 and 8). All of the CLF's other investments are short-term with no maturities in excess of one year. During fiscal year 1994, the CLF adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and has classified its investments as held-to-maturity. Accordingly, investments are recorded at cost.

Fair Value of Financial Instruments - The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

a. *Cash* - The carrying amounts for cash approximate fair value.

b. *Investments* - Securities held have maturities of one year or less and, as such, the carrying amounts approximate fair value.

c. *Loans* - For loans advanced to member credit unions, the carrying amounts approximate fair value. There were no loans to members outstanding at December 31, 1997 and 1996.

d. *Members Deposits* - Funds maintained with the CLF in excess of required capital amounts are recorded as member deposits. These deposits are due upon demand and the carrying amounts approximate the fair value.

e. *Other* - Accrued interest receivable and accounts payable and other liabilities are recorded at book values, which approximate the respective fair values.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

3. GOVERNMENT REGULATIONS

The CLF is subject to various Federal laws and regulations. The CLF's operating budget requires Congressional approval, and the CLF may not make loans to members for the purpose of expanding credit union loan portfolios. The CLF's investments are restricted to obligations of the United States Government and its agencies, deposits in Federally insured financial institutions, and shares and deposits in credit unions. Borrowing is Congressionally limited to twelve times equity and capital subscriptions

on-call. However, there is a Congressional limitation of $600,000,000 on funds that are borrowed and then loaned out at any one point in time. At December 31, 1997 and 1996, the CLF was in compliance with these limitations.

4. LOANS TO MEMBERS

There were no loans outstanding at December 31, 1997 or 1996. The CLF also provides members with extended loan commitments and lines of credit. There were no outstanding loan commitments or lines of credit at December 31, 1997.

5. FUNDS ON DEPOSIT WITH U.S. CENTRAL CREDIT UNION

Funds not currently required for operations are invested as follows (in thousands):

	December 31,	
	1997	**1996**
U.S. Central Credit Union (see Note 8):		
Redeposits	$705,332	$677,639
Share accounts	58,000	47,400
	$763,332	$725,039

6. BORROWING AUTHORITY

The Secretary of the Treasury is authorized by the Act to lend up to $500 million to the CLF in the event that the Board certifies to the Secretary that the CLF does not have sufficient funds to meet the liquidity needs of credit unions. This authority to lend is limited to such extent and in such amounts as are provided in advance by Congressional Appropriation Acts. On December 23, 1981, President Reagan signed PL 97-101, which provided $100 million of permanent indefinite borrowing authority that may be provided by the Secretary of the Treasury to the CLF to meet emergency liquidity needs of credit unions. Borrowings would be from the Federal Financing Bank with interest generally payable upon maturity. There were no borrowings outstanding at December 31, 1997 and 1996.

7. CAPITAL STOCK AND MEMBER DEPOSITS

The required capital stock account represents subscriptions remitted to the CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which amount is required to be remitted to the CLF. Agent members' required subscription amounts equal one-half of one percent of the paid-in and unimpaired capital and surplus of all of the credit unions served by the agent member, one-half of which amount is required to be remitted to the CLF. In both cases, the remaining one-half of the subscription is required to be held in liquid assets by the member credit unions subject to call by the National Credit Union Administration Board. These unremitted subscriptions are not reflected in the CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are declared and paid on required capital stock.

Member deposits represent amounts remitted by members over and above the amount required for membership. Interest is paid on member deposits at a rate equivalent to the dividend rate paid on required capital stock.

8. U.S. CENTRAL CREDIT UNION MEMBERSHIP

During fiscal year 1984, the CLF accepted a membership request from U.S. Central Credit Union (USC) on behalf of 29 of its corporate credit union members. At December 31, 1997 and 1996, $705,332,000 and $677,639,000, respectively, of the required portion of subscribed capital stock was purchased from the CLF by USC on behalf of its member credit unions.

In addition, by accepting the USC membership request, the CLF was initially committed to reinvest all but $50,000,000 of its total share capital in USC at market rates of interest. Beginning April 1, 1996, the CLF reinvests all of its agent member share capital in USC at market rates of interest. At December 31, 1997 and 1996, approximately $763,332,000 and $725,039,000, respectively, were invested in USC share accounts at approximately 5.48% and 5.42%, respective yields.

9. **CONCENTRATION OF CREDIT RISK**

At December 31, 1997 and 1996, the CLF has a concentration of credit risk for its investments with USC of approximately $763,332,000 and $725,039,000 (see Notes 5 and 8).

10. **SERVICES PROVIDED BY THE NATIONAL CREDIT UNION ADMINISTRATION**

The National Credit Union Administration provides the CLF with miscellaneous services, data processing services, and supplies. In addition, the National Credit Union Administration pays CLF's employees' salaries and benefits as well as CLF's portion of monthly building operating costs. The CLF reimburses the National Credit Union Administration on a monthly basis for these items. Total reimbursements for the years ended December 31, 1997 and 1996, amounted to approximately $171,000 and $150,700, respectively.

11. **DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amount and the estimated fair value of the CLF's financial instruments are as follows (in thousands):

	December 31, 1997		December 31, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	$ 14	$ 14	$ 1	$ 1
Investments	763,332	763,332	725,039	725,039
Accrued interest receivable	9,718	9,718	9,432	9,432
Member deposits	25,813	25,813	16,668	16,668
Accounts payable and other liabilities	69	69	79	79

12. **CASH FLOW INFORMATION**

The reconciliation of net cash provided by operating activities is as follows (in thousands):

	Year Ended December 31,	
	1997	1996
Excess of revenue over expenses	$41,542	$39,062
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Increase in accrued interest receivable	(286)	(768)
Decrease in accounts payable and other liabilities	(10)	(94)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$41,246	$38,200

* * * * * *

Insurance Fund Ten - Year Trends

FISCAL YEAR	1988	1989	1990	1991	1992	1993	1994	1995[1]	1996	1997
INCOME (IN THOUSANDS)										
Regular premium-federal	—	—	—	$26,174	$78,889	—	—	—	—	—
Regular premium-state	—	—	—	15,061	44,985	—	—	—	—	—
Interest income	$127,075	$146,612	$159,096	$162,979	$148,659	$142,027	$147,564	$172,926	$184,715	$201,938
Other income	530	2,188	1,168	3,195	5,512	4,223	2,258	2,147	2,148	2,151
Total income	**$127,605**	**$148,800**	**$160,264**	**$207,409**	**$278,045**	**$146,250**	**$149,822**	**$175,073**	**$186,863**	**$204,089**
EXPENSES (IN THOUSANDS)										
Operating	$26,588	$30,817	$35,153	$40,353	$46,161	$43,574	$44,132	$48,384	$47,220	$49,767
Insurance losses	60,122	93,608	89,982	163,000	112,000	60,000	26,000	—	—	—
Losses on investment sales	—	—	—	—	—	—	—	—	—	—
Total expenses	**$86,710**	**$124,425**	**$125,135**	**$203,353**	**$158,161**	**$103,574**	**$ 70,132**	**$48,384**	**$47,220**	**$49,767**
Net Income (in thousands)	$40,895	$24,375	$35,129	$4,056	$119,884	$42,676	$ 79,690	$126,690	$139,643	$154,322
DATA HIGHLIGHTS										
Total equity (in thousands)	$1,855,911	$1,972,502	$2,052,635	$2,257,124	$2,555,449	$2,814,253	$3,054,308	$3,250,002	$3,412,164	$3,593,686
Equity as a percentage of shares in insured credit unions	1.24%	1.25%	1.25%	1.23%	1.26%	1.26%	1.27%	1.30%	1.30%	1.30%
Contingent liabilities (in thousands)	$3,407	$10,663	$7,803	$6,734	$73,594	$1,334	$22	$375	$1,026	$933
Contingent liabilities as a percentage of equity	0.2%	0.5%	0.4%	0.3%	2.9%	0.0%	0.0%	0.0%	0.0%	0.0%
NCUSIF loss per $1,000 of insured shares	$0.38	$0.58	$0.51	$0.83	$0.51	$0.25	$0.10	$0.00	$0.00	0.00
OPERATING RATIOS										
Premium income	—	—	—	19.9%	44.5%	—	—	—	—	—
Interest income	99.6%	98.5%	99.3%	78.6%	53.5%	97.1%	98.5%	98.8%	98.8%	99.0%
Other income	0.4%	1.5%	0.7%	1.5%	2.0%	2.9%	1.5%	1.2%	1.1%	1.0%
Operating expenses	20.8%	20.7%	21.9%	19.5%	16.6%	29.8%	29.5%	27.6%	25.3%	24.4%
Insurance losses	47.1%	62.9%	56.1%	78.6%	40.3%	41.0%	17.4%	0.0%	0.0%	0.0%
Total expenses	67.9%	83.6%	78.1%	98.1%	56.9%	70.8%	46.8%	27.6%	25.3%	24.4%
Net income	32.1%	17.4%	21.9%	1.9%	43.1%	29.2%	53.2%	72.4%	74.7%	75.6%
INVOLUNTARY LIQUIDATIONS COMMENCED										
Number	35	54	83	89	81	54	29*	15	13	8
Share payouts (in thousands)	$36,110	$21,687	$70,875	$117,710	$124,857	$57,303	$27,279*	$11,737	$1,028	$17,888
Share payouts as a percentage of total insured shares	0.023%	0.013%	0.040%	0.067%	0.057%	0.024%	0.011%	0.004%	0.000%	.006%

*Includes 2 liquidations occurring during transition quarter

[1]EFFECTIVE JANUARY 1, 1995, THE NCUSIF FISCAL YEAR AND NCUSIF INSURANCE YEAR CHANGED FROM OCTOBER 1 THRU SEPTEMBER 30 TO A PERIOD OF JANUARY 1 THRU DECEMBER 31

Insurance Fund Ten - Year Trends

FISCAL YEAR	1988	1989	1990	1991	1992	1993	1994	1995[2]	1996	1997
MERGERS—FISCAL YEAR										
Assisted	50	60	81	41	33	17	8*	7	6	8
Unassisted	464	395	386	357	352	328	423*	297	305	164
ASSISTANCE TO AVOID LIQUIDATION										
Capital notes and other cash advances outstanding	$5,117	$39,360	$67,891	$35,101	$101,228	$6,634	$2,673	$0	$265	$1,211
Non-cash guaranty accounts	$41,127	$53,959	$98,576	$179,595	$88,286	$16,587	$2,849	$1,134	$1,197	$1,343
Number of active cases	25	43	42	51	27	15	7	9	12	7
NUMBER OF PROBLEM CASE INSURED CREDIT UNIONS (CODE 4 & 5)										
Number	1,022	794	678	685	608	474	319	267	286	326
Shares (millions)	$10,600	$8,400	$9,400	$10,400	$7,400	$4,300	$2,430	$2,051	$1,759	$2,928
Problem case shares as a percentage of insured shares	6.3%	4.8%	4.9%	5.2%	3.4%	1.8%	.96%	.80%	.65%	.95%

*INCLUDES 2 ASSISTED MERGERS AND 81 UNASSISTED MERGERS OCCURRING DURING TRANSISTION QUARTER

DECEMBER 31	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
SHARES IN INSURED CREDIT UNIONS (IN MILLIONS)[1]										
Federal credit unions	$104,431	$109,653	$117,881	$127,316	$142,139	$149,229	$155,483	$164,582	$173,544	$178,953
State credit unions	55,217	57,518	62,082	72,467	87,386	91,101	92,173	96,856	101,914	$114,322
Total shares	**$159,648**	**$167,171**	**$179,963**	**$199,783**	**$229,525**	**$240,330**	**$247,653**	**$261,438**	**$275,458**	**$293,275**
NUMBER OF MEMBER ACCOUNTS IN INSURED CREDIT UNIONS (IN THOUSANDS)										
Federal credit unions	57,235	53,301	55,222	57,077	58,366	60,746	78,835	78,245	77,243	73,566
State credit unions	27,376	32,547	30,726	33,646	34,749	36,459	44,203	55,740	41,841	45,690
Total	**84,611**	**85,848**	**85,948**	**90,723**	**93,115**	**97,205**	**123,038**	**133,985**	**119,084**	**119,256**
NUMBER OF INSURED CREDIT UNIONS										
Federal credit unions	9,118	8,821	8,511	8,229	7,916	7,696	7,498	7,329	7,152	6,981
State credit unions	4,760	4,552	4,349	4,731	4,737	4,621	4,493	4,358	4,240	4,257
Total	**13,878**	**13,373**	**12,860**	**12,960**	**12,653**	**12,317**	**11,991**	**11,687**	**11,392**	**11,238**
Shares in insured credit unions as a percentage of all credit union shares	96.1%	96.0%	96.0%	96.2%	96.4%	98.0%	98.0%	99.0%	99.0%	99.0%
State credit union portion of insured shares	34.6%	34.4%	34.6%	36.3%	38.1%	37.9%	37.2%	37.1%	37.0%	40.0%

[1]INSURED SHARES IN NATURAL PERSON CREDIT UNIONS
[2]EFFECTIVE JANUARY 1, 1995, THE NCUSIF FISCAL YEAR AND NCUSIF INSURANCE YEAR CHANGED FROM OCTOBER 1 THRU SEPTEMBER 30 TO A PERIOD OF JANUARY 1 THRU DECEMBER 31

Federal Credit Unions Ten-Year Summary

FEDERAL CREDIT UNIONS
DECEMBER 31 (DOLLAR AMOUNTS IN MILLIONS)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Number of credit unions	9,118	8,821	8,511	8,229	7,916	7,696	7,498	7,329	7,152	6,981
Number of members	34,438,304	35,612,317	36,241,607	37,080,854	38,205,128	39,755,596	40,837,392	42,162,627	43,545,541	43,500,553
Assets	$114,565	$120,666	$130,073	$143,940	$162,544	$172,854	$182,529	$193,781	$206,692	$215,097
Loans outstanding	73,766	80,272	83,029	84,150	87,633	94,640	110,090	120,514	134,120	140,100
Shares	104,431	109,653	117,892	130,164	146,078	153,506	160,226	170,300	180,964	187,817
Reserves[1]	4,216	4,690	5,158	5,539	6,176	6,976	7,616	8,351	9,092	9,371
Undivided earnings	3,567	4,072	4,594	5,338	6,793	8,338	9,584	11,445	13,087	14,365
Gross income	11,173	12,420	13,233	13,559	13,301	12,946	13,496	15,276	16,645	17,404
Operating expenses	3,931	4,364	4,730	5,068	5,329	5,578	5,964	6,468	7,246	7,793
Dividends	6,148	6,910	7,372	7,184	5,876	5,038	5,208	6,506	7,087	7,425
Reserve transfers	232	265	222	170	191	186	245	262	240	201
Net income	799	781	841	1,087	1,897	2,096	1,903	1,886	1,992	1,915
PERCENT CHANGE										
Total assets	8.9%	5.3%	7.8%	10.7%	12.9%	6.3%	5.6%	6.2%	6.7%	4.1%
Loans outstanding	15.1	8.8	3.4	1.3	4.1	8.0	16.3	9.5	11.3	4.5
Savings	8.4	5.0	7.5	10.4	12.2	5.1	4.4	6.3	6.3	3.8
Reserves	13.2	11.2	10.0	7.4	11.5	13.0	9.2	9.7	9.3	3.1
Undivided earnings	18.0	14.2	12.8	16.2	27.3	22.7	14.9	19.4	14.2	9.8
Gross income	10.0	11.2	6.5	2.5	- 1.9	-2.7	4.2	13.2	9.0	4.6
Operating expenses	9.7	11.0	8.4	7.1	5.1	4.7	6.9	8.5	11.9	7.5
Dividends	9.3	12.4	6.7	- 2.6	-18.2	-14.3	3.4	24.9	8.7	4.8
Net reserve transfers	- 2.1	14.2	-16.1	- 23.8	12.7	-2.6	31.7	6.9	-8.1	-16.3
Net income	16.1	- 2.3	7.6	29.3	74.5	10.5	-9.2	-0.1	6.9	-3.9
SIGNIFICANT RATIOS										
Reserves to assets	3.7%	3.9%	4.0%	3.8%	3.8%	4.0%	4.2%	4.3%	4.4%	4.4%
Reserves and undivided earnings to assets	6.4	6.8	7.3	7.5	7.6	8.0	8.9	10.2	10.7	11.0
Reserves to loans	5.7	5.8	6.2	6.6	7.0	7.4	6.9	6.9	6.8	6.7
Loans to shares	70.6	73.2	70.4	64.6	60.0	61.7	68.7	70.8	74.1	74.6
Operating expenses to gross income	35.2	35.1	35.7	37.4	40.1	43.1	44.2	42.3	39.4	39.4
Salaries and benefits to gross income	14.8	14.7	15.0	15.7	17.4	19.4	20.2	19.2	19.2	19.3
Dividends to gross income	55.0	55.6	55.7	53.0	44.2	38.9	38.6	42.6	42.6	42.7
Yield on average assets	10.2	10.6	10.6	9.9	8.7	7.7	7.6	8.1	8.3	8.3
Cost of funds to average assets	5.7	6.0	5.9	5.3	3.9	3.1	3.0	3.5	3.6	3.6
Gross spread	4.5	4.6	4.6	4.6	4.8	4.6	4.6	4.6	4.7	4.7
Net income divided by gross income	7.2	6.3	6.4	8.0	14.3	16.2	14.1	12.3	12.0	12.2
Yield on average loans	11.3	11.5	11.4	11.2	10.4	9.4	8.7	8.9	8.5	8.7
Yield on average investments	7.9	8.4	8.3	7.0	5.5	4.6	5.1	5.6	6.0	5.9

[1] DOES NOT INCLUDE THE ALLOWANCE FOR LOAN LOSSES

Federally Insured State-Chartered Credit Unions Ten-Year Summary

FEDERALLY INSURED STATE-CHARTERED CREDIT UNIONS
DECEMBER 31 (DOLLAR AMOUNTS IN MILLIONS)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Number of credit unions	4,760	4,552	4,349	4,731	4,737	4,621	4,493	4,358	4,240	4,257
Number of members	18,518,969	18,939,127	19,453,940	21,619,223	23,859,447	23,996,751	24,294,761	24,926,666	25,665,783	27,921,882
Assets	$ 60,740	$ 63,175	$ 68,133	$ 83,133	$ 98,767	$104,316	$106,937	$112,861	$120,176	136,107
Loans outstanding	39,977	42,373	44,102	49,268	53,727	57,695	65,769	71,606	79,651	92,117
Shares	55,217	57,658	62,082	75,626	89,648	93,482	94,797	99,838	105,728	119,359
Reserves[1]	2,612	2,872	3,047	3,620	4,238	4,754	4,908	5,246	5,689	6,421
Undivided earnings	1,651	1,945	2,241	2,952	3,910	4,862	5,563	6,645	7,490	8,779
Gross income	5,973	6,529	6,967	7,878	8,182	7,878	7,955	8,932	9,736	11,124
Operating expenses	2,078	2,216	2,412	2,860	3,203	3,302	3,473	3,770	4,198	4,939
Dividends	3,290	2,930	3,908	4,203	3,664	3,109	3,145	3,889	3,367	3,790
Reserve transfers	158	150	118	98	121	114	144	147	143	138
Net income	470	457	509	711	1,207	1,347	1,146	1,095	1,154	1,237
PERCENT CHANGE										
Total assets	6.6%	4.0%	7.8%	22.0%	18.8%	5.6%	2.5%	5.5%	6.5%	13.2%
Loans outstanding	12.8	6.0	4.1	11.7	9.1	7.4	14.0	8.9	11.2	15.6
Savings	6.0	4.4	7.7	21.8	18.5	4.3	1.4	5.3	5.9	12.9
Reserves	7.8	10.0	6.1	18.8	17.1	12.2	3.2	6.9	8.5	12.9
Undivided earnings	13.2	17.8	15.2	31.7	32.5	24.3	14.4	19.4	12.4	17.2
Gross income	8.9	9.3	6.7	13.1	3.9	-3.7	1.0	12.3	9.0	14.3
Operating expenses	10.3	6.6	8.8	18.6	12.0	3.1	5.2	8.6	11.4	17.7
Dividends	7.9	-10.9	33.4	7.5	-12.8	-15.1	1.2	23.7	-13.4	12.6
Net reserve transfers	-14.1	-5.1	-21.3	-16.9	23.5	-5.8	26.3	2.1	-2.7	-3.5
Net income	32.4	-2.8	11.4	39.7	69.8	11.6	-4.5	-4.5	5.7	7.2
SIGNIFICANT RATIOS										
Reserves to assets	4.3%	4.5%	4.5%	4.4%	4.3%	4.6%	4.6%	4.6%	4.7%	4.7%
Reserves and undivided earnings to assets	7.0	7.6	7.8	7.9	8.2	9.2	9.8	10.5	11.0	11.2
Reserves to loans	6.5	6.8	6.9	7.3	7.9	8.2	[illegible]	7.3	7.1	7.0
Loans to shares	72.4	73.5	71.0	65.1	59.9	61.7	69.4	71.7	75.3	77.2
Operating expenses to gross income	34.8	33.9	34.6	36.3	39.1	41.9	43.7	42.2	39.1	39.5
Salaries and benefits to gross income	14.5	14.4	14.7	15.4	16.9	19.0	20.0	19.1	18.8	19.0
Dividends to gross income	55.1	44.9	56.1	53.4	44.8	39.5	39.5	43.5	35.0	34.1
Yield on average assets	10.1	10.5	10.6	10.4	9.0	7.8	7.5	8.1	8.4	8.7
Cost of funds to average assets	5.5	5.9	6.0	5.6	4.1	3.1	3.0	3.5	3.6	3.8
Gross spread	4.6	4.6	4.6	4.6	4.6	4.7	4.5	4.6	4.7	4.9
Net income divided by gross income	7.9	7.0	7.3	9.0	14.8	17.1	14.4	12.3	11.9	11.1
Yield on average loans	11.2	11.4	11.4	11.8	10.8	9.5	8.6	8.9	8.4	9.1
Yield on average investments	7.9	8.4	8.5	7.4	5.7	4.7	4.9	5.6	6.0	6.1

[1] DOES NOT INCLUDE THE ALLOWANCE FOR LOAN LOSSES

Historical Data, Federal Credit Unions

HISTORICAL DATA FOR FEDERAL CREDIT UNIONS
DECEMBER 31, 1935 TO 1969

YEAR	CHARTERS ISSUED	CHARTERS CANCELED	NET CHANGE	TOTAL OUTSTANDING	INACTIVE CREDIT UNIONS	ACTIVE CREDIT UNIONS	MEMBERS	(AMOUNTS IN THOUSANDS OF DOLLARS) ASSETS	SHARES	LOANS OUTSTANDING
1935	828		828	906	134	772	119,420	$ 2,372	$ 2,228	$ 1,834
1936	956	4	952	1,858	107	1,751	309,700	9,158	8,511	7,344
1937	638	69	569	2,427	114	22,313	483,920	19,265	17,650	15,695
1938	515	83	432	2,859	99	2,760	632,050	29,629	26,876	23,830
1939	529	93	436	3,295	113	3,182	850,770	47,811	43,327	37,673
1940	666	76	590	3,855	129	3,756	1,127,940	72,530	65,806	55,818
1941	583	89	494	4,379	151	4,228	1,408,880	106,052	97,209	69,485
1942	187	89	98	4,477	332	4,145	1,356,940	119,591	109,822	43,053
1943	108	321	- 213	4,264	326	3,938	1,311,620	127,329	117,339	35,376
1944	69	285	- 216	4,048	233	3,815	1,306,000	144,365	133,677	34,438
1945	96	185	- 89	3,959	202	3,757	1,216,625	153,103	140,614	35,155
1946	157	151	6	3,965	204	3,761	1,302,132	173,166	159,718	56,801
1947	207	159	48	4,013	168	3,845	1,445,915	210,376	192,410	91,372
1948	341	130	211	4,224	166	4,058	1,628,339	258,412	235,008	137,642
1949	523	101	422	4,646	151	4,495	1,819,606	316,363	285,001	186,218
1950	565	83	482	5,128	144	4,984	2,126,823	405,835	361,925	263,736
1951	533	75	458	5,586	188	5,398	2,463,898	504,715	457,402	299,756
1952	692	115	577	6,163	238	5,925	2,853,241	662,409	597,374	415,062
1953	825	132	693	6,856	278	6,578	3,255,422	854,232	767,571	573,974
1954	852	122	730	7,586	359	7,227	3,598,790	1,033,179	931,407	681,970
1955	777	188	589	8,175	369	7,806	4,032,220	1,267,427	1,135,165	863,042
1956	741	182	559	8,734	384	8,350	4,502,210	1,529,202	1,366,258	1,049,189
1957	662	194	468	9,202	467	8,735	4,897,689	1,788,768	1,589,191	1,257,319
1958	586	255	331	9,533	503	9,030	5,209,912	2,034,866	1,812,017	1,379,724
1959	700	270	430	9,963	516	9,447	5,643,248	2,352,813	2,075,055	1,666,526
1960	685	274	411	10,374	469	9,905	6,087,378	2,669,734	2,344,337	2,021,463
1961	671	265	406	10,780	509	10,271	6,542,603	3,028,294	2,673,488	2,245,223
1962	601	284	317	11,097	465	10,632	7,007,630	3,429,805	3,020,274	2,560,722
1963	622	312	310	11,407	452	10,955	7,499,747	3,916,541	3,452,615	2,911,159
1964	580	323	257	11,664	386	11,278	8,092,030	4,559,438	4,017,393	3,349,068
1965	584	270	324	11,978	435	11,543	8,640,560	5,165,807	4,538,461	3,864,809
1966	701	318	383	12,361	420	11,941	9,271,967	5,668,941	4,944,033	4,323,943
1967	636	292	344	12,705	495	12,210	9,873,777	6,208,158	5,420,633	4,677,480
1968	662	345	317	13,022	438	12,584	10,508,504	6,902,175	5,986,181	5,398,052
1969	705	323	382	13,404	483	12,921	11,301,805	7,793,573	6,713,385	6,328,720

1)DATA FOR 1935-44 ARE PARTLY ESTIMATED

Historical Data, Federal Credit Unions

HISTORICAL DATA FOR FEDERAL CREDIT UNIONS
DECEMBER 31, 1970 TO 1997

YEAR	CHARTERS ISSUED	CHARTERS CANCELED	NET CHANGE	TOTAL OUTSTANDING	INACTIVE CREDIT UNIONS	ACTIVE CREDIT UNIONS	MEMBERS	ASSETS (AMOUNTS IN THOUSANDS OF DOLLARS)	SHARES (AMOUNTS IN THOUSANDS OF DOLLARS)	LOANS OUTSTANDING (AMOUNTS IN THOUSANDS OF DOLLARS)
1970	563	412	151	13,555	578	12,977	11,966,181	$ 8,860,612	$ 7,628,805	$ 6,969,006
1971	400	461	-61	13,494	777	12,717	12,702,135	10,533,740	9,191,182	8,071,201
1972	311	672	-361	13,133	425	12,708	13,572,312	12,513,621	10,956,007	9,424,180
1973	364	523	-159	12,974	286	12,688	14,665,890	14,568,736	12,597,607	11,109,015
1974	367	369	-2	12,972	224	12,748	15,870,434	16,714,673	14,370,744	12,729,653
1975	373	334	39	13,011	274	12,737	17,066,428	20,208,536	17,529,823	14,868,840
1976	354	387	-33	12,978	221	12,757	18,623,862	24,395,896	21,130,293	18,311,204
1977	337	315	22	13,000	250	12,750	20,426,661	29,563,681	25,576,017	22,633,860
1978	348	298	50	13,050	291	12,759	23,259,284	34,760,098	29,802,504	27,686,584
1979	286	336	-50	13,000	262	12,738	24,789,647	36,467,850	31,831,400	28,547,097
1980	170	368	-198	12,802	362	12,440	24,519,087	40,091,855	36,263,343	26,350,277
1981	119	554	-435	12,367	398	11,969	25,459,059	41,905,413	37,788,699	27,203,672
1982	114	556	-442	11,925	294	11,631	26,114,649	45,482,943	41,340,911	28,184,280
1983	107	736	-629	11,296	320	10,976	26,798,799	54,481,827	49,889,313	33,200,715
1984	135	664	-529	10,767	219	10,548	28,191,922	63,656,321	57,929,124	42,133,018
1985	55	575	-520	10,247	122	10,125	29,578,808	78,187,651	71,616,202	48,240,770
1986	59	441	-382	9,865	107	9,758	31,041,142	95,483,828	87,953,642	55,304,682
1987	41	460	-419	9,446	45	9,401	32,066,542	105,189,725	96,346,488	64,104,411
1988	45	201	-156	9,290	172	9,118	34,438,304	114,564,579	104,431,487	73,766,200
1989	23	307	-284	9,006	185	8,821	35,612,317	120,666,414	109,652,600	80,272,306
1990	33	410	-377	8,629	118	8,511	36,241,607	130,072,955	117,891,940	83,029,348
1991	14	291	-277	8,352	123	8,229	37,080,854	143,939,504	130,163,749	84,150,334
1992	33	341	-308	8,044	128	7,916	38,205,128	162,543,659	146,078,403	87,632,808
1993	42	258	-216	7,828	132	7,696	39,755,596	172,854,187	153,505,799	94,640,348
1994	39	224	-185	7,643	145	7,498	40,837,392	182,528,895	160,225,678	110,089,530
1995	28	194	-166	7,477	148	7,329	42,162,627	193,781,391	170,300,445	120,514,044
1996	14	189	-175	7,302	150	7,152	43,545,541	206,692,540	180,964,338	134,120,610
1997	17	179	-162	6,994	13	6,981	43,500,553	215,097,395	187,816,918	140,099,926

Board and Officers

Norman E. D'Amours
Chairman

Yolanda Townsend Wheat
Board Member

Dennis Dollar
Board Member

Tawana Y. James
Deputy Executive Director

Rebecca J. Baker
Secretary of the Board

Robert W. Hall
Executive Assistant to the Chairman

Margaret Broadaway
Executive Assistant to Board Member Wheat

Kirk Cuevas
Executive Assistant to Board Member Dollar

Robert M. Fenner
General Counsel

Robert E. Loftus
Director, Office of Public and Congressional Affairs

H. Frank Thomas
Inspector General

David M. Marquis
Director, Office of Examination and Insurance

Dennis Winans
Chief Financial Officer

Joyce Jackson
Director, Office of Community Development Credit Unions

Robert F. Schafer
Director, Office of Corporate Credit Unions

Edward Dupcak
Director, Office of Investment Services

Doug Verner
Director, Office of Technology & Information Services

James L. Baylen
Director, Office of Administration

Lamont Gibson
Director, Equal Opportunity Program

Robert A. Pompa
Director, Office of Training and Development

NCUA Board Members

■ Chairman Norman E. D'Amours, an attorney and former U.S. Congressman from New Hampshire, was appointed by President Bill Clinton in 1993 to serve a six year term, which expires in August 1999.

■ Board Member Yolanda Townsend Wheat is an attorney from California who specialized in banking and corporate law before President Bill Clinton appointed her to the NCUA Board in April 1996. Board Member Wheat's term expires in August 2001.

■ Board Member Dennis Dollar, a former Mississippi legislator and educator, served as president of Gulfport VA Federal Credit Union before being appointed to the NCUA Board by President Bill Clinton in October 1997. His term expires in April 2003.

Field Officers

From the left are the directors from Region III, Alonzo A. Swann III; Region I, Layne L. Bumgardner; Region V, Phillip R. Crider; AMAC President J. Leonard Skiles; Region IV, Nicholas Veghts; Region VI, Daniel L. Murphy; and Region II, Jane A. Walters.

Region I — Albany

9 Washington Square
Washington Avenue Extension
Albany, New York 12205
Telephone: 518-862-7400
Fax: 518-862-7420

Region II — Capital

1775 Duke Street, Suite 4206
Alexandria, VA 22314-3437
Telephone: 703-838-0401
Fax: 703-838-0571

Region III — Atlanta

7000 Central Parkway, Suite 1600
Atlanta, GA 30328
Telephone: 770-396-4042
Fax: 770-698-8211

Region IV — Chicago

4225 Naperville Road, Suite 125
Lisle, IL 60532-3658
Telephone: 630-245-1000
Fax: 630-245-1015

Region V – Austin

4807 Spicewood Springs Road,
Suite 5200
Austin, TX 78759-8490
Telephone: 512-349-4500
Fax: 512-349-4511

Region VI – Pacific

2300 Clayton Road, Suite 1350
Concord, CA 94520
Telephone: 925-825-6125
Fax: 925-486-3729

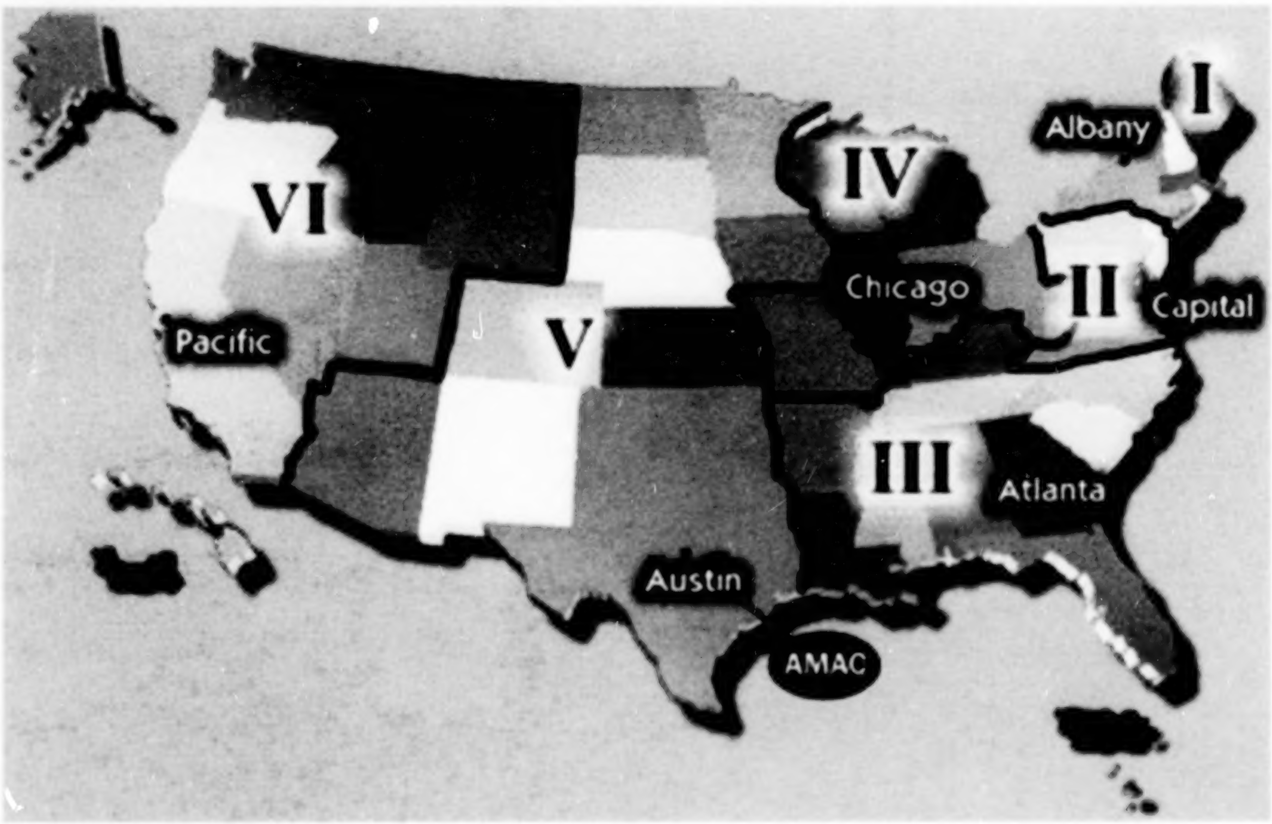
Asset Management and Assistance Center

4807 Spicewood Springs Road,
Suite 5100
Austin, TX 78759-8490
Telephone: 512-795-0999
Fax: 512-795-8244

Information

General information	703-518-6330
TDD:	703-518-6332
Office of the Board	703-518-6300
News about NCUA	1-800-755-1030
	703-518-6339
Publications	703-518-6340
Credit union investments	1-800-755-5999
	703-518-6370
To report improper or	1-800-827-9650
illegal activities	703-518-6550
Member Complaints	Regional office
World Wide Web site	http://ncua.gov

Regional Offices



National Credit Union
Administration
Alexandria, VA 22314-3428

OFFICIAL BUSINESS
Penalty For Private Use, $300

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END

06/22/98